Digitized by the Internet Archive
in 2022 with funding from
University of Toronto

https://archive.org/details/31761115505554

209

Government Publications

CA1
DB41
-A55

FARM CREDIT CORPORATION



LIBRARY
JUL 26 1994
University of Toronto

ANNUAL REPORT 1993–1994

CONTENTS

EXECUTIVE REPORT 2

HIGHLIGHTS 6

MEETING OUR OBJECTIVES 8

MANAGEMENT DISCUSSION & ANALYSIS

OPERATING ENVIRONMENT 12

REVIEW OF OPERATIONS 13

FINANCIAL REVIEW 17

CORPORATE OBJECTIVES 1994/99 22

MANAGEMENT'S REPORT 24

AUDITOR'S REPORT 25

FINANCIAL STATEMENTS 26

FCC LOAN PRODUCTS 37

BOARD OF DIRECTORS 38

OFFICERS & MANAGEMENT 39

FCC LOCATIONS 40

COVER PHOTOGRAPH:
A TYPICAL FARM LANDSCAPE IN RURAL QUÉBEC.

FCC'S PURPOSE

TO ENHANCE RURAL CANADA BY PROVIDING SPECIALIZED AND PERSONALIZED FINANCIAL SERVICES TO FARMING OPERATIONS, INCLUDING FAMILY FARMS, AND TO THOSE BUSINESSES IN RURAL CANADA, INCLUDING SMALL AND MEDIUM-SIZED BUSINESSES, THAT ARE RELATED TO FARMING.

CORPORATE PROFILE

Farm Credit Corporation (FCC) is Canada's largest agricultural term lender and is dedicated exclusively to serving the financial needs of Canadian farmers.

A Crown corporation that reports to Parliament through the Minister of Agriculture, FCC received a new and broader mandate with the passage of the *Farm Credit Corporation Act* on April 2, 1993.

In addition to traditional lending, FCC can also finance on-farm diversification projects and value-added agricultural operations beyond the farm gate.

FCC is now in a position to deliver joint programs and services with federal agencies, provincial governments and other lenders.

FCC has a loan portfolio of some 55,000 accounts, valued at $3.3 billion.

More than 760 employees serve clients from six regional offices and 101 field and district offices across Canada.

The Corporation's Head Office is located in Regina, Saskatchewan.

Farm Credit Corporation
1800 Hamilton Street
Regina, Saskatchewan
S4P 4K7

The Honourable
Ralph E. Goodale, P.C., M.P.
Minister of Agriculture
9th Floor, Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario
K1A 0C5

The Honourable
Art Eggleton, P.C., M.P.
President of the Treasury Board
Room 207, Confederation Building
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Ministers:

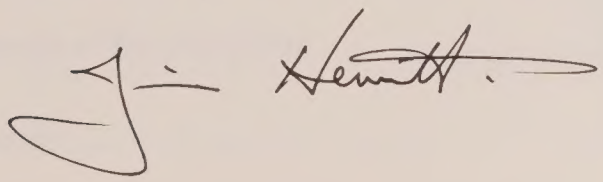
On behalf of the Board of Directors, I am pleased to submit Farm Credit Corporation's (FCC) annual report for the fiscal year ended March 31, 1994.

The report includes the financial statements and the auditor's report, in accordance with the *Financial Administration Act.*

In 1993/94, the Corporation's lending activity exceeded $500 million, while loan arrears continued to decline. The Corporation recorded a net income of $28.3 million for the year.

I am also pleased to report that FCC has met the objectives outlined in the Corporate Plan.

Yours sincerely,



James J. Hewitt
Chairman and Chief Executive Officer

EXECUTIVE REPORT

The ability to adapt to change and to take advantage of changing times is the key to business success in the 1990s. In the past year, change impacted the world economy, Canada and the Farm Credit Corporation.

In 1993, Canadians determined it was time for a new government. Interest rates displayed a downward trend throughout 1993 and early 1994. Canada's export trade increased, thereby assisting our economic recovery. We steadily worked our way out of the recession, albeit slowly, as economic performance was still hampered by high unemployment and cautious consumer spending. Canada and the provinces continued to battle deficits and an ever-increasing debt load.

"WE ARE SEEING GREAT INTEREST IN OUR NEW ABILITY TO FINANCE DIVERSIFICATION AND VALUE-ADDED ENDEAVOURS."

– C. GERALD PENNEY

The past year also saw the conclusion of negotiations on the General Agreement on Tariffs and Trade (GATT) as well as the implementation of the North American Free Trade Agreement (NAFTA). Both GATT and NAFTA will provide opportunities and challenges for the worldwide agricultural community well into the future.

Canadian farmers benefitted from lower interest rates, a lower Canadian dollar as related to exports, and a better return from the marketplace. Net realized farm income in Canada for 1993 totalled $4.8 billion, up from $4.2 billion in 1992.

A YEAR OF OPPORTUNITY

This was our first year operating under the new *Farm Credit Corporation Act*, which provided FCC with a fresh mandate to serve farmers and rural Canada. While traditional agricultural lending is still our mainstay, we are seeing great interest in our ability to finance diversification and value-added endeavours, large-scale farms, and part-time farming.

In today's competitive and rapidly changing trade and agricultural environment,

it is clear that the farm community needs to diversify and add value to primary production. Local communities need to expand employment opportunities in order to maintain our country's rural infrastructure. With our new legislation, FCC can play a role in financing enterprises related to agriculture. In 1993/94, over $50 million of FCC's lending volume was related to our expanded mandate. Examples of new types of loan activity include financing nursery operations, rural municipal water projects, and on-farm manufacturing and processing initiatives.

Last year, FCC acquired the lending portfolio of the New Brunswick Agricultural Development Board in a joint effort with the province to reduce duplication in farm credit programs. The transaction involved approximately 1,000 loans purchased for $37.6 million. We are confident that this arrangement will enhance the ability of FCC to meet the expanding needs of the provincial farm community.



JAMES J. HEWITT, CHAIRMAN AND CHIEF EXECUTIVE OFFICER (LEFT) WITH C. GERALD PENNEY, PRESIDENT AND CHIEF OPERATING OFFICER.

In other parts of Canada, we have also seen an increased demand for our services, primarily due to our new legislation but also because of the pent-up demand for upgrading farm equipment and facilities. With interest rates at a 30-year low, many farmers took the opportunity to arrange term financing. Our Atlantic, Québec, Ontario, and Manitoba regions experienced net increases in their loan portfolios.

BUSINESS ACTIVITY

In 1993/94, the Corporation experienced its largest lending volume in ten years. Loans approved totalled $512 million, compared to $277 million in 1992/93. Loan arrears were reduced to $37 million, down from $68 million in 1992/93. FCC recorded a net income of $28.3 million, up from $20.4 million last year.

The Corporation's financial statements indicate that FCC has the financial stability and flexibility to expand its activities under the new legislation as well as respond to the special needs of the agricultural community.

TANIA RAMANJOOLOO AT FCC'S HEAD OFFICE RECEPTION.

For a more detailed review of the year's operations, please refer to the Financial Statements and the Management Discussion & Analysis sections of this report.



FCC has established a properties division called Agri-Land Sales and Leasing to separate the Corporation's lending function from land management. Agri-Land has developed a new long-term lease product which includes an investment option, whereby the farmer can build equity with the goal of eventually purchasing the property. Through this product and other lease/purchase arrangements, our goal is to substantially reduce our land holdings over the coming years and to help farm families re-establish land ownership.

FCC continues to be innovative. Client service is one of the cornerstones of our corporate objectives. Through focus groups and market research, we are developing products and services specifically tailored to the agricultural community. The Corporation has taken a leadership role in environmental sustainability and has developed a comprehensive environment policy.

Our goal is to encourage environmentally safe farming practices by creating a climate of awareness with our clients.

We have developed training programs for employees across the Corporation related to quality management and team-building. A new "Managing for Results" system of performance reporting has been implemented. A new loan accounting system with state-of-the-art financial software will be introduced this fall which will allow us to provide top quality service to our clients.

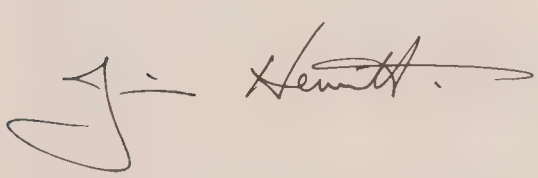
THE FUTURE

Competition is here to stay in the world of agriculture. With the implementation of GATT, Canadian commodity groups and individual farmers will have the opportunity to take advantage of the expanded marketplace. The quality of Canada's agricultural production is second to none. Finding niche domestic and export markets as well as adding value to our production will be the key to success. With our new mandate, FCC is well positioned to provide funding to new agricultural and agri-food enterprises.

We firmly believe that a thriving agricultural sector will result in direct and indirect job creation throughout rural Canada. The prosperity of our rural communities will contribute to the overall economic well-being of our country.

"WE FIRMLY BELIEVE THAT A THRIVING AGRICULTURAL SECTOR WILL RESULT IN DIRECT AND INDIRECT JOB CREATION THROUGHOUT RURAL CANADA."

– JAMES J. HEWITT



James J. Hewitt
Chairman and Chief Executive Officer



C. Gerald Penney
President and Chief Operating Officer

HIGHLIGHTS

OPERATIONAL	1993-1994	1992-1993	1991-1992	1990-1991	1989-1990
Total Loans Receivable Portfolio*					
Number	55,455	56,687	59,845	61,475	63,884
Amount ($ Millions)	3,322.6	3,308.7	3,503.1	3,611.0	3,852.8
Number of Loans Approved	5,117	2,734	3,244	2,131	2,444
Amount of Loans Approved					
Gross ($ Millions)	553.9	285.4	365.8	193.7	217.0
Net ($ Millions)	511.7	277.1	334.6	180.1	203.5
Average Size of Loans					
Approved - Gross ($)	100,013	109,696	119,148	94,633	90,464
Percentage of Loans in					
Good Standing	95.0	92.0	89.2	87.9	86.5
Percentage of Total Owing					
in Good Standing	94.3	87.8	82.1	79.6	77.6
Real Property Held at Year End					
Number	2,758	2,803	2,609	2,371	1,864
Value ($ Millions)	221.5	231.9	222.6	224.7	178.3

FINANCIAL	1993-1994	1992-1993	1991-1992	1990-1991	1989-1990
Revenues and Expenses ($ Millions)					
Net Loan and Investment Income**	87.9	68.6	66.4	–	–
Net Interest Income**	–	–	–	47.4	30.3
Net Provision (Recovery of Provision) For Loan Losses	9.6	–	(12.8)	3.7	3.2
Net Lease and Real Estate Income**	6.9	11.9	15.3	–	–
Lease Revenue **	–	–	–	35.4	22.5
Other Income	2.9	1.7	2.1	–	–
Administrative Expenses	59.0	55.3	55.7	52.5	47.3
Large Corporations Tax	0.7	1.2	6.0	6.2	5.0
Income (Loss) for the Year	28.3	20.4	21.6	20.4	(2.7)
Non-Accrual Loans					
Number	2,613	3,374	4,209	4,333	5,495
Total Owing ($ Millions)	250.0	338.0	445.0	485.3	641.4
Reduction of Interest Income Due to Non-Accrual ($ Millions)	0.5	13.1	21.3	21.6	30.9
Financial Position ($ Millions)					
Total Assets	3,773.6	3,623.0	3,686.9	3,810.4	3,816.7
Total Liabilities	3,456.7	3,334.4	3,418.8	3,663.8	3,890.6
Equity (Deficiency) of Canada	316.9	288.6	268.1	146.6	(73.9)

* *See detail on opposite page*

** *Prior to the 1991-1992 fiscal year, the Corporation did not produce the information necessary to allocate interest carrying costs between Loans Receivable and Real Estate. For periods prior to April 1, 1991, total interest expense is reported as a deduction in calculating Net Interest Income.*

LOANS RECEIVABLE PORTFOLIO AS AT MARCH 31, 1994 ($000'S)

	Number	Principal Not Due	Arrears	Accrued Interest	Amounts Held For Future Instalments	Net Total
British Columbia	1,696	159,354	1,557	5,374	(5,516)	160,769
Alberta	7,506	368,411	4,682	19,453	(8,272)	384,274
Saskatchewan	17,360	819,440	12,127	43,830	(11,315)	864,082
Manitoba	6,432	309,566	1,941	12,787	(7,841)	316,453
Ontario	13,420	1,003,214	10,660	33,127	(35,168)	1,011,833
Québec	6,251	428,548	1,042	13,858	(13,492)	429,956
New Brunswick	1,716	98,972	3,261	3,880	(2,533)	103,580
Nova Scotia	148	18,611	258	390	(449)	18,810
Prince Edward Island	782	55,561	599	2,204	(1,513)	56,851
Newfoundland	144	14,852	467	466	(724)	15,061
Canada	55,455	3,276,529	36,594	135,369	(86,823)	3,361,669
Adjustment to principal and interest relating to non-accrual loans		20,833	5,548	12,659		39,040
Loans receivable	55,455	3,255,696	31,046	122,710	(86,823)	3,322,629

LOANS APPROVED BY PROVINCE ($000'S)

	1993-1994		1992-1993	
	Number	Net Amount	Number	Net Amount
British Columbia	190	40,536	161	26,712
Alberta	436	53,525	291	24,697
Saskatchewan	1,193	66,484	313	14,450
Manitoba	849	59,008	510	37,132
Ontario	1,281	168,520	784	102,300
Québec	843	85,553	489	47,750
New Brunswick	127	10,552	60	4,746
Nova Scotia	59	11,133	23	4,937
Prince Edward Island	126	15,059	89	11,602
Newfoundland	13	1,323	14	2,831
Canada	5,117	511,693	2,734	277,157

MEETING OUR OBJECTIVES

OBJECTIVE 1: TO ENSURE THE CORPORATION'S FINANCIAL VIABILITY, BY ACHIEVING COST RECOVERY OVER THE PLANNING PERIOD.

Growth was the operative word for FCC's performance over the past year. Our 1993/94 net income was $28.3 million, compared to $20.4 million during 1992/93. This fourth consecutive year of profit, combined with an overall reduction in the debt levels carried by the Corporation, has resulted in a debt-to-equity ratio of 10.9:1 as of March 31, 1994. This is an improvement over last year's 11.6:1 ratio.

Factors which contributed to the Corporation's long-term financial viability include: increased profitability from higher lending volumes, an improved capital structure and lower loan losses.



FCC is well above target in lending activity due to factors such as the new *Farm Credit Corporation Act*, which allowed us to finance a much broader range of activities.

Over the past year, FCC implemented a Business Management Framework, which re-engineered many facets of the Corporation's business practices, particularly in the area of lending controls. A Head Office Credit Committee was established to provide concurrence for traditional loans over $1 million and non-traditional loans over $500,000.

Another component of the Business Management Framework is a new "Managing for Results" system which reports on financial performance and other key result areas by region, district and service. The new system was introduced during the past fiscal year and will assist management in measuring progress achieved against objectives.

OBJECTIVE 2: TO DEVELOP A MARKETING FRAMEWORK WHICH ADDRESSES NATIONAL COORDINATION OF MARKETING EFFORTS, MARKET RESEARCH, PRODUCT DIVERSIFICATION, MARKET DIVERSIFICATION, AND PROJECTION OF CORPORATE IMAGE.

Our expanded mandate now allows us to consider a range of new markets, new products and other opportunities. The Corporation's marketing strategy is to determine and satisfy the needs of rural Canadians to help them achieve their goals, while at the same time meeting our organizational objectives. A marketing plan has been developed which outlines FCC's future direction in this important area and a new marketing structure is in place. Market surveys are conducted periodically to identify the needs of current and potential clients. FCC is in the midst of creating several new products based on such research, including one which will facilitate intergenerational transfers. Every aspect of our products and services is under examination to ensure that we provide the best agricultural financing in the country.

As part of our marketing strategy, we have modernized our barn and handshake logo to further emphasize our relationship with Canadian farmers.

FCC views corporate sponsorship as a social responsibility and an integral part of the marketing mix. Sponsoring farm shows, industry seminars, speaking tours, scholarships and other special events are examples of the many ways the Corporation provides support to the agricultural community. A new FCC 4-H Scholarship Awards Program was announced last year to underline the Corporation's commitment to future Canadian farmers and rural youth.

OBJECTIVE 3: TO STRENGTHEN OPERATIONAL EFFECTIVENESS THROUGH THE BALANCE BETWEEN EMPOWERMENT OF OUR HUMAN RESOURCES AND CORPORATE CONTROLS.

In support of our business goals, we constantly strive to improve the way we do business. Empowering staff through professional development and training is integral to the Corporation's success. To strengthen corporate controls, we implemented a Business Management Framework, which encompasses lending controls, reporting on performance, and staff accountability. Intensive national staff training programs were conducted regarding this system. A joint initiative with the Federal Business Development Bank provided staff with credit analysis training which focused on risk assessment and mitigation. FCC was pleased to participate in a cooperative venture with another Crown corporation in an effort to eliminate duplication of services.

OPPOSITE:
FORMER NEW BRUNSWICK MINISTER OF AGRICULTURE GÉRALD H. CLAVETTE (LEFT) RECEIVES THE INITIAL PAYMENT FOR THE PROVINCE'S AGRICULTURAL DEVELOPMENT BOARD'S LENDING PORTFOLIO FROM JOHN VAN ABBEMA, FCC'S VICE-PRESIDENT – ATLANTIC REGION.

A new environment policy was implemented January 1, 1994 and staff received training in this area.

As part of our commitment to provide staff with regular input toward their successful performance and that of FCC's, an ambitious new employee evaluation system was developed and introduced. The Performance Review and Employee Evaluation calls for increased dialogue between supervisors and staff as well as staff participation in goal-setting exercises. Other human resource initiatives include the redesign and pilot of the project management course, and the introduction of a long-service awards program. In addition, an employee task team has developed and launched an innovative ideas program to foster staff creativity and to encourage suggestions for improving FCC operations.

In order to improve efficiency, the properties function is now managed by Agri-Land Sales and Leasing, a division of FCC.

OBJECTIVE 4: TO ACQUIRE NEW INFORMATION SYSTEMS AND UPGRADE TECHNOLOGY IN A PHASED MANNER, IN ORDER TO MEET THE BUSINESS INFORMATION REQUIREMENTS OF THE CORPORATION.

As a large financial institution, FCC must manage a myriad of information from across the country, including loan application processing, payment collection, corporate financial statements, interest calculations, and many other items. To provide efficient client service, the Corporation must also provide our customers with swift responses to information requests.

A new loan management system software package was acquired from Systematics, the leading software supplier to the financial services industry. This software, which is used around the world, will allow us to improve customer service and will facilitate the development of new lending products. We have begun customizing this package to tailor it to Canadian agricultural finance needs, while making it easy to use at any of our 108 FCC offices.

In preparation for the introduction of the Systematics software, we have improved our telecommunications network, installed a prototype of the user-friendly interface, introduced current technology hardware and upgraded work station software. While reducing current operating costs, these changes will also pave the way for delivery of the new loan management system.

FCC has also introduced a technology plan outlining computer standards and new software to enhance staff effectiveness.

OBJECTIVE 5: TO STRENGTHEN CLIENT SERVICE STANDARDS SO THAT OUR CLIENTS' EXPECTATIONS ARE MET OR EXCEEDED.

Client service – to both our external customers and among staff across FCC – is central to our corporate values. We are in the process of evaluating our client service standards to ensure that we continue to meet the changing financial needs of Canadian agriculture. One of the first steps required in evaluating these client service standards is to obtain feedback from external sources. Accordingly, we will shortly begin conducting client satisfaction surveys. Survey results will allow us to improve and amend our client service standards on an ongoing basis.

Client service is now an important aspect of our new internal employee evaluation system and virtually all staff have attended an intensive client service training seminar.



OBJECTIVE 6: TO DESIGN AND IMPLEMENT THE HUMAN RESOURCE PLAN WHICH WILL ENSURE THE APPROPRIATE COMBINATION OF QUALIFICATIONS AND SKILLS TO MEET FUTURE AND ONGOING NEEDS.

FCC is currently at the leading edge of human resource management. Creating new products and services, adapting to our expanded mandate and implementing new technology requires a staff complement with an appropriate skill profile. We are accordingly designing human resource and strategic training plans which will ensure FCC is appropriately structured with highly qualified staff to meet our current and future needs.

To ensure that sound human resource management practices are supported and exercised throughout the organization, we have introduced a Human Resource Index to measure employee satisfaction.

As a federal Crown corporation, FCC recognizes and supports the principles of official languages, employment equity and multiculturalism. This year, we reviewed our bilingual services in every office across Canada to ensure compliance with the *Official Languages Act.* Training in both official languages is provided to FCC staff who require it. New Employment Equity and Employee Assistance programs are currently under development.

FCC PROUDLY SPONSORS A WIDE RANGE OF EVENTS ACROSS CANADA. HERE, CREDIT ADVISOR BILL WIEBE PRESENTS 4-H MEMBER RYAN HYDE (LEFT) WITH THE FIRST PLACE RIBBON FOR GRAND CHAMPION IN THE CONTINUATION COW-CALF COMPETITION IN BRANDON, MANITOBA. JARED MUNRO (RIGHT) SHARES HIS FRIEND RYAN'S DELIGHT.

OPERATING ENVIRONMENT

The concept of a global village – where individual countries recognize that they are mutually interdependent and cannot operate in isolation – has been widely embraced. This is particularly true for the agricultural sector in the 1990s.

Producers must think globally and adapt their operations in order to remain competitive in a changing economic and political climate. Many factors affect agriculture – including technology, the environment, competition, political change, changes in wealth distribution and trade. Changing demographics affect consumption patterns, not only in Canada, but around the world. GATT and NAFTA are significantly reducing traditional trade barriers. These agreements will provide Canadian producers and processors with more secure access to international markets. Countries in Asia, South America and elsewhere possess potential markets to be tapped by Canada. Fewer barriers and better rules should lead to greater stability in the agricultural sector. On the national front, interprovincial trade barriers are also coming down. Information technology now available will help farmers keep abreast of local, national and world trends and will assist them in planning their operations accordingly.

CREDIT ADVISOR PAT PALASCHUK (LEFT) AND DALE STRUDWICK INSPECT A CHAMPION SHOW HEIFER ON HIS DAIRY FARM IN BALGONIE, SASKATCHEWAN.



In this emerging international environment, Canadian producers, rural communities, governments and other agricultural players increasingly are recognizing the need to focus efforts in the same direction to achieve maximum effect. We need to develop strategic alliances to achieve common goals and influence global events.

Canada is well positioned to prosper in the agricultural sector. We have skilled, energetic people, vast land resources with high quality soil and water, and established infrastructures in transportation, grading and quality control. Growth in Canada's agri-food sector will depend on our ability to meet varied and changing needs as well as our pursuit of the many different consumers in the global marketplace. The government's agricultural policy aims to dramatically increase exports. This will only be possible with the full involvement of the agricultural sector – from producers to research scientists. Our research programs are giving us the technology we will need to compete. Canadian farmers continually demonstrate their ability to adopt new technologies in a competitive environment.

Financial institutions will be looking at global competitiveness when making decisions about financing particular farm operations. This means the cost efficiency of Canada's farm

operations in relation to farms in other parts of the world will become very important.

Our large and complex world contains many variables that undoubtedly will impact the Canadian farming community. FCC monitors global and national developments closely – from consumption patterns to niche markets, changing demographics and political events. Developing products and services that reflect changing needs is an important priority for FCC.

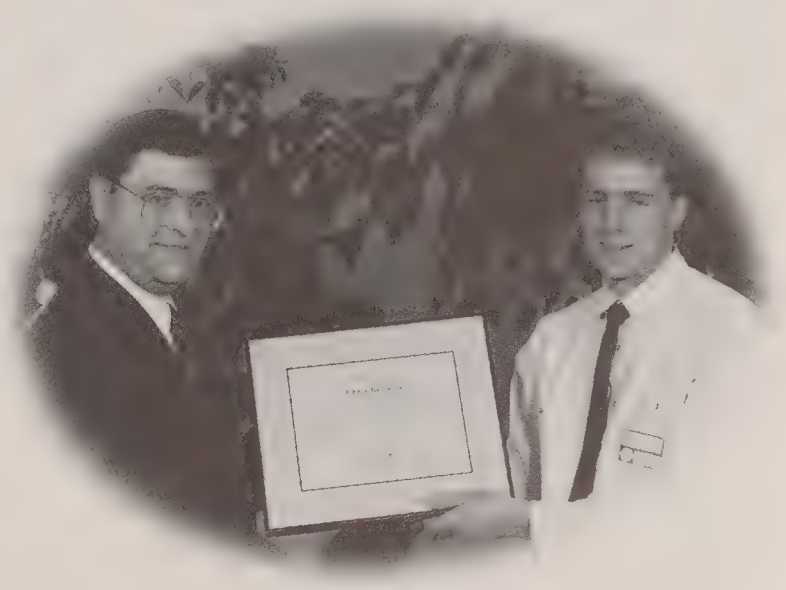
Rural renewal is also critical to assuring future success in agriculture. FCC's new purpose is to enhance rural Canada through a broadened range of agricultural finance services. We can play an important role in this area, as we can now consider small and medium-sized businesses in rural Canada that are related to farming. We are excited by the range of loan applications new and existing clients are asking us to consider, many of which involve diversification and value-added projects. Rural development is linked inextricably to a thriving agricultural sector. With the expansion of Farm Credit Corporation's mandate, we are in a position to help farmers become more diversified and competitive at home and abroad.

REVIEW OF OPERATIONS

A New Act for FCC

The new *Farm Credit Corporation Act*, passed on April 2, 1993, enables FCC to finance a wider range of farm-related projects to help rural Canada survive and prosper. We can consider on-farm diversification and value-added operations beyond the farm gate, part-time farming, non-mortgage lending, and aquaculture and silviculture projects. Examples of on-farm diversification could include machine repair, small-scale manufacturing or farm vacation businesses. FCC may finance innovative farmers who have identified domestic and export markets for value-added products. The types of security that may be used for loans now include general security agreements and negotiable securities. We also can finance proposals in excess of our previously legislated limit of $600,000.

The new Act also allows FCC to participate in joint initiatives with the provinces and other institutions. In June 1993, FCC announced the $37.6 million purchase of approximately 1,000 loans from the New Brunswick Agricultural Development Board. Costly duplication in federal and provincial farm credit programs was reduced as a result of this purchase. The transaction allowed the New Brunswick government to redirect its resources to other areas of the farm sector in the province, notably enhancing farm management services. We have hired additional staff in New Brunswick to maintain a high level of client service to this area.



CREDIT ADVISOR ROBERT GÉLINAS (LEFT) PRESENTS McGILL UNIVERSITY STUDENT CHRIS REUSSER WITH THE ANNUAL FCC PRIZE FOR BEST OVERALL RESULTS IN FINANCIAL FARM MANAGEMENT AT MACDONALD COLLEGE NEAR MONTRÉAL, QUÉBEC.

ROSALIE HIGGINS AND RICHARD TREMBLAY PRINT FCC'S MONTHLY EMPLOYEE NEWSLETTER AND A WIDE RANGE OF CORPORATE DOCUMENTS IN HOUSE.



Business Management Framework

In the fall of 1993, a new Business Management Framework (BMF) was implemented nation-wide. The BMF represents a major re-engineering of our business practices in five important areas: credit risk, credit information, delegation of authorities, accountability, and reporting on performance.

Environment Policy

Prevention and early identification are the cornerstones for success in ensuring sustainable agriculture and FCC is a leader in this area. A new environment policy was introduced January 1, 1994 to underline FCC's commitment to safeguarding the environment, investing in environmentally sound enterprises and protecting our clients – and the Corporation – from potential liability. Strengthened legislation at the federal, provincial and municipal levels means land owners and lenders may be held jointly responsible for damage. FCC's environment policy encourages environmentally safe farming practices by clients and any new loans now require an environmental assessment during the loan approval stage. FCC Credit Advisors are provided with environmental training to help them fulfil these new requirements.

New Manitoba Offices

As a result of increased demand for services, FCC opened four new Manitoba offices to move closer to clients. The new locations are in Morris, Stonewall, Steinbach and Swan River. These are major agricultural centres which serve a large population of progressive farmers. With these new offices, FCC Credit Advisors will be positioned to become more involved in local communities, and to better understand and meet customers' needs.

Portfolio Management

This fiscal year saw the creation of a Portfolio Management unit, whose goal is to control the Corporation's portfolio risk and to provide information and recommendations to management. Individual loan risk is assessed when loans enter the portfolio. The Portfolio Management group maintains a Risk Model which is used to predict the results of each year's lending activity and to continuously monitor portfolio risk.

Portfolio Management staff also analyze each sector of the agriculture industry to determine existing opportunities and risks. The impact of major issues, such as GATT, is assessed and appropriate information is relayed across the Corporation.

Lending Activity

Although there has not been a significant increase in overall farm debt, FCC's lending volume was significantly higher than projected. Across Canada, FCC approved 5,117 loans during the 1993/94 fiscal year. This was an 87 per cent increase over the total number of loans approved the previous year. The net loan amount for 1993/94 totalled $511.7 million.

A large portion of this financing (39 per cent) was the refinancing of existing debt. The other primary purpose of loans was for land purchase (30 per cent). We have noted a shift in attitude regarding the type of interest rate products farmers prefer. While riding the wave of interest rate declines, shorter term rates have been favoured. We anticipate a shift back to longer terms if interest rates climb.

Our increased lending volume can be attributed to a number of factors, including business in non-traditional markets under our new Act, and competitively priced products. Favourable commodity prices and external factors such as settlement of the GATT resulted in a more positive outlook in the farming community.



CREDIT ADVISOR LOIS THOMPSON-HUDON AND GEORGE NEUDORF DISCUSS THE UNIQUE ASPECTS OF STRAWBERRY GROWING ON HIS FARM IN BRANDON, MANITOBA.

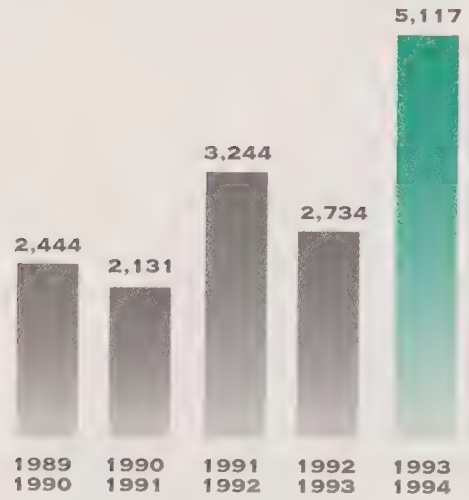
Arrears

Across Canada, 95 per cent of FCC loan accounts were in good standing at year end. Arrears have steadily declined over the past five years, from 5.29 per cent of principal not due in 1989/90 to 1.12 per cent at the end of this fiscal year. It has always been our philosophy to work with farmers who find themselves in financial difficulty. Field staff help these clients analyze all reasonable alternatives and, wherever possible, recommend solutions to difficult financial situations.

Loan Products

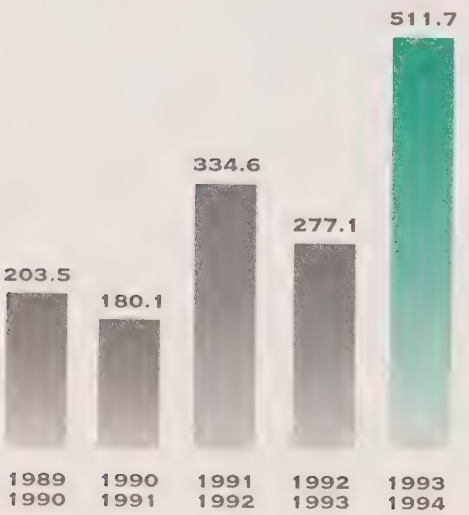
FCC offers a wide range of products to serve our clients. Our product portfolio includes a variety of intermediate and long-term loans, with amortization periods as long as 29 years. FCC continues to offer both the Shared Risk Mortgage and the One-Year Convertible Mortgage. With the Shared Risk Mortgage, the client and FCC share the costs or benefits of fluctuating interest rates. With our One-Year Convertible Mortgage, clients can lock in for the longer term at any time.

TOTAL NUMBER OF LOANS APPROVED



NET AMOUNT OF LOANS APPROVED

($ millions)



Our "early mortgage extension option," offered on all other FCC products, allows for an early renewal and possible savings during periods of interest rate volatility. Our One-Year Convertible product was very popular again this year; however, demand also remained strong for our other products.

Loan Renewals

In 1993/94, 89 per cent of clients who were offered extensions did in fact renew with FCC. This confirms that our products are meeting our clients' needs, our interest rates are competitive and that we are continuing to provide services that are viewed favourably by our clients.

Property Management

As a result of difficulties experienced by farmers in the past decade, FCC's national land inventory stands at 1.2 million acres – 90 per cent of which is in Saskatchewan. Approximately 82 per cent of FCC's land had been leased back to former owners as of March 31, 1994.

There was no net increase in land holdings over the past year. Economic and agricultural conditions in late 1993 and early 1994 increased sales activity in many areas, with Saskatchewan showing improved acceptance of purchase options.

In June 1993, FCC's Board of Directors approved the reorganization of real property resources into a separate division in order to separate land management from the lending function. This change was the result of thorough research and planning. Agri-Land Sales and Leasing became operational April 1, 1994.

In April 1994, Agriculture Minister Ralph Goodale announced a new FCC long-term lease to help farmers regain land ownership. The Agri-Land Investment Lease has a five-year term with an optional investment component. An agreement between FCC and Saskatchewan will extend the product to provide FCC clients in that province with protection equivalent to provincial six-year leaseback requirements. As a result of the agreement, all parties have discontinued legal proceedings.

FINANCIAL REVIEW

The fiscal year ended March 31, 1994, proved to be a record year for Farm Credit Corporation. Strong improvements were evident in net income and most of our key operating ratios.

BALANCE SHEET

At March 31, 1994, FCC's assets exceeded $3.7 billion, an increase of $150.6 million or 4.2 per cent from March 31, 1993.

Cash and Marketable Securities

Cash and marketable securities, which consist of bank deposits, liquid investments in Canadian Treasury Bills and Banker's Acceptances, were $269.1 million, an increase of $88.0 million from last year's balance of $181.1 million.

Loans Receivable

Loans receivable make up 88 per cent of FCC's total assets. At March 31, 1994, the Corporation had 55,455 loans representing $3.3 billion, an increase of $13.9 million since March 31, 1993. Loans approved were up significantly from $277.1 million in 1992/93 to $511.7 million in the current year.

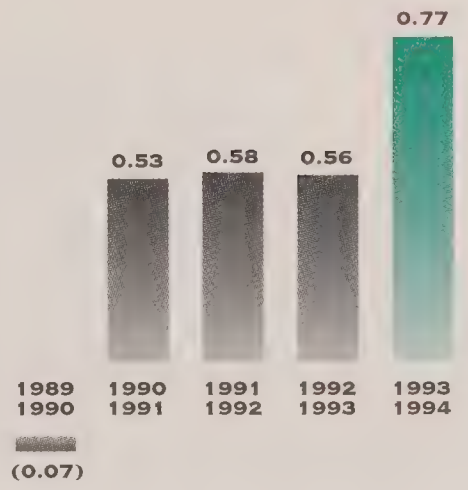
The allowance for loan losses consists of two components: specific and general. At March 31, 1994, the general allowance was $115 million and the specific allowance was $11.5 million, compared to a $100 million general allowance and a $24 million specific allowance the previous year. The loan loss allowance as a percentage of loan receivables increased marginally from 3.7 per cent as of March 31, 1993 to 3.8 per cent as of March 31, 1994.

Loans Payable

Loans payable outstanding as at March 31, 1994, are comprised of $2.3 billion borrowed from the Government of Canada and $535 million borrowed from capital markets. In the fiscal year ended March 31, 1994, the Corporation borrowed $838 million in long-term funds. These funds were sourced on a cost-effective basis from both the capital markets and the Government of Canada.

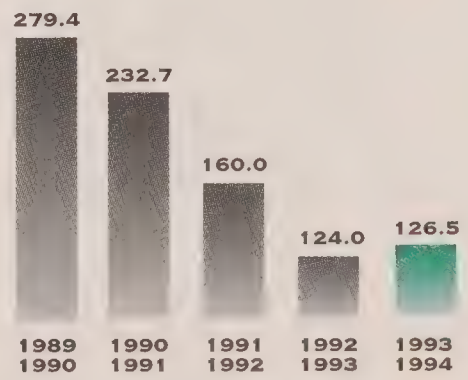
RETURN ON ASSETS (%)

(net income/average assets)
for the year ended March 31



ALLOWANCE FOR LOAN LOSSES

($ millions) for the year ended March 31



Real Estate

The value of real estate held by FCC decreased during the fiscal year from $232 million to $222 million. Property acquisitions were $42.7 million and sales totalled $51.5 million. This is compared to acquisitions of $60.7 million and sales of $43.0 million in 1992/93.

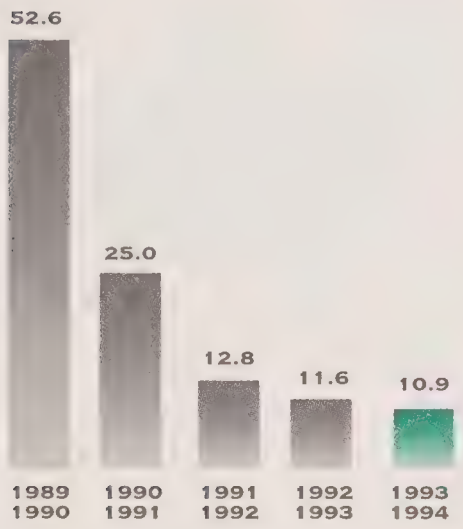
Other Assets and Liabilities

Other assets include accounts receivable, office equipment and leasehold improvements. Other liabilities include downpayments on real estate sales, accounts payable and accrued liabilities, and provisions for future obligations.

Debt-to-Equity Ratio

A key measure contributing to the Corporation's long-term financial viability is the debt-to-equity ratio, which improved from 11.6:1 at March 31, 1993 to 10.9:1 at March 31, 1994.

DEBT-TO-EQUITY RATIO



INCOME STATEMENT

The Corporation's financial position was strengthened during the 1993/94 fiscal year. Net income was reported at $28.3 million, an improvement of $7.9 million over the previous year. This represents a return on average assets of 0.77 per cent, in comparison with the return of 0.56 per cent reported in 1992/93.

Loan and Investment Income

Total interest income for 1993/94 was $338.8 million, compared to $353.1 million the prior year. The decrease of $14.3 million is a reflection of lower average loans receivable balances and lower interest rates, particularly due to a high uptake on lower interest short-term products.

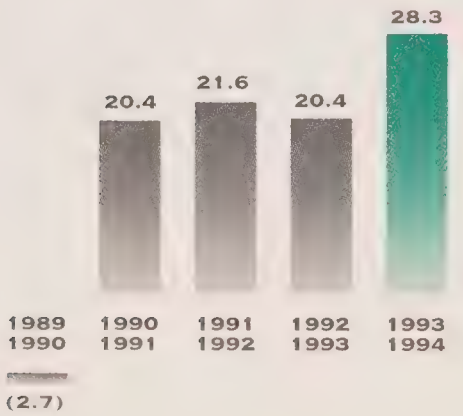
The lower interest income figure was offset by a $33.5 million reduction in interest expense from $284.4 million in 1992/93 to $250.9 million in 1993/94. This is primarily due to the combined effect of lower average long-term debt balances and a lower cost of funding.

In reporting interest income, FCC excludes non-accrual interest, which represents the interest deducted from gross interest income for loans classified as non-performing. Interest reversed for loans in non-accrual status totalled $0.5 million in 1993/94 compared to $13 million in 1992/93, reflecting a continuous improvement in the loan portfolio's credit quality.

The net interest margin, as a percentage of average total assets, has improved to 2.38 per cent from 1.88 per cent the previous year.

NET INCOME

($ millions) for the year ended March 31



Lease and Real Estate Income

Net lease and real estate income decreased $5.0 million from the $11.9 million reported in 1992/93. This decrease is primarily due to a $6.1 million decline in payments received from Farm Debt Review Board settlements, reflecting the evolution of the program. Even with the decrease, lease revenue from real estate continues to be a significant source of income for FCC.

Administration

Administrative expenses were $59.0 million for the current fiscal year, up from the $55.3 million incurred in the prior year. Several major initiatives, including the installation of new computer systems, have temporarily increased administrative expense levels.
The administrative coverage ratio of 1.49 per cent shows no change over the 1992/93 ratio.

No significant Head Office relocation expenses were incurred in 1993/94 in comparison with the $5.4 million reported in the previous year.



ASSET AND LIABILITY MANAGEMENT

Financial Risk Management

As a lending institution, FCC's financial performance is affected by exposure to financial risks that include interest rate risk, foreign exchange risk and liquidity risk. Financial risk is defined as the exposure of our current and future earnings to changes in financial market conditions.

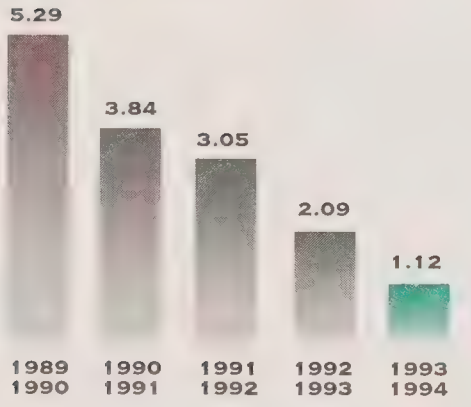
FCC formally measures and manages financial exposure to eliminate risk or reduce it to a prudent level within policy guidelines developed by FCC, in accordance with Minister of Finance guidelines, and approved by FCC's Board of Directors. As part of our normal business operations, we manage financial risk exposure through the Asset/Liability Management Committee (ALCO). Chaired by the President, ALCO is made up of senior officers and is responsible for strategic management of financial risks.
FCC's Treasury division establishes policies governing liquidity, funding, investments, foreign exchange and interest rate risk, which are approved by ALCO.

Treasury's activities and the Corporation's asset/liability position are reported monthly to FCC's ALCO and quarterly to the Board of Directors.

FCC INVOLVES STAFF FROM EVERY REGION ON MAJOR PROJECT TEAMS. LEFT TO RIGHT: LISE HEBABI (ATLANTIC), DON SINGER (ONTARIO), SHARON EISTETTER (SASKATCHEWAN) AND RUTH LYCHAK (ALBERTA/B.C.) ARE MEMBERS OF A TEAM REVIEWING THE EMPLOYEE BENEFITS PACKAGE.

ARREARS AS A % OF PND

(Principal not due)



The following sections present FCC's approach to managing financial risk.

Liquidity Risk

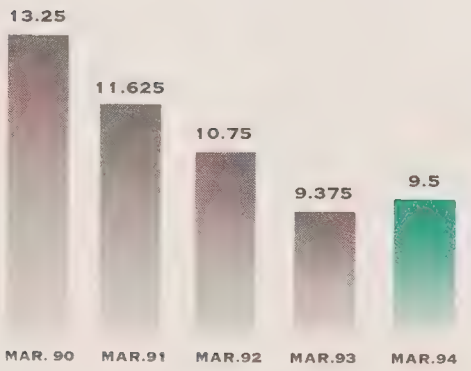
FCC maintains sufficient liquidity to meet customers' needs and to support business operations. As of March 31, 1994, we held $333.5 million in funds for liquidity and asset/liability management purposes. Such funds were invested in short-term deposits and government bonds in accordance with Minister of Finance investment guidelines. The liquidity portfolio represents 8.8 per cent of our total assets.

To diversify funding sources, FCC is broadening its funding base. As part of our medium and longer term borrowing requirements, we have established a Medium and Long-Term Note (MTN) program. These notes are offered on a daily basis and may be issued with terms varying from one year up to 29 years. Through our MTN program, FCC is able to efficiently access sources of debt capital to better match fund the asset portfolio.

The Corporation also has a short-term commercial paper program with an unspecified dollar limit. Short-term borrowings are used on an ongoing basis to provide liquidity in support of our business operations and to fund short-term assets.

FCC is also exploring the development of a Euro Medium-Term Note program to expand our borrowing facilities.

FIVE-YEAR TERM LENDING RATE (%)



Foreign Exchange Risk

Because all of FCC's assets are denominated in Canadian dollars, the Corporation has a policy of fully hedging all foreign exchange exposures to eliminate any foreign exchange rate risk. All borrowings in foreign currencies are hedged via foreign exchange contracts or currency swaps at time of issuance.

Interest Rate Risk

Interest rate risk exists when there is a mismatch between maturing assets and liabilities in any given year. To reduce interest rate risk, FCC actively manages the maturity structure of its assets and liabilities on a portfolio basis rather than a matching of individual assets with specific liabilities. This provides a superior method of managing the balance sheet through minimizing borrowing and hedging costs.

FCC measures risk exposures with interest rate risk measurement systems. The Corporation uses GAP reporting and income simulation models to quantify and manage interest rate risk. Analysis, from use of these management tools, indicates that the current structure of assets

and liabilities is more susceptible to interest rate risk exposure in periods of declining interest rates. However, this exposure remains well within defined risk limits. FCC's Board of Directors recently approved new interest rate risk limits and enhanced methodologies using Market Value of Portfolio Equity (MVPE) and Net Interest Income (NII) simulation. These new management tools will be introduced in fiscal 1994/95 and will enable FCC to improve assessment of risk exposures to changes in market interest rates.

OFF-BALANCE SHEET ACTIVITIES

FCC engages in a variety of off-balance sheet activities including foreign exchange contracts, forwards, interest rate options and swaps in order to manage market risk. Off-balance sheet activities are conducted within policy limits established by the ALCO and approved by the Board of Directors. These policy limits restrict the use of derivative financial instruments solely for purposes of reducing interest rate risk exposure or achieving cost-effective funding.

FUNDING ACTIVITY AND BORROWING PLANS

FCC's funding policy, approved by the Government of Canada, provides for the use of diversified alternatives to finance its portfolio of mortgages and property holdings. In order to minimize funding costs, we fund our capital requirements with short-term promissory notes, our own Medium and Long-Term Note (MTN) program, as well as government funding sources.

In 1993/94, FCC borrowed a total of $838 million (up from $296 million in 1992/93) in long-term funds. Of this total amount, $195 million was borrowed from the MTN program. Long-term principal payments during the year were $760 million and year-over-year indebtedness, consisting of short-term and long-term debt outstanding, increased by $137 million.

In 1994/95, FCC will continue to seek cost-effective funding sources. Based on anticipated new lending activity and depending on market conditions, aggregate new borrowing in 1994/95 is expected to exceed $500 million.



VICE-PRESIDENT AND TREASURER BLAKE WALKER (STANDING) REVIEWS CAPITAL MARKET ACTIVITY IN THE DEALING ROOM WITH TREASURY STAFF (LEFT TO RIGHT) CARLO NOVATI, RITCHIE WIONZEK AND LOIS SWANSON.

CORPORATE OBJECTIVES 1994/99

FCC's Board of Directors has approved the following five key corporate objectives for the 1994/99 planning period:

TO ENSURE THE CORPORATION'S ONGOING FINANCIAL VIABILITY.

Key components include exploring the use of new funding instruments and sources of capital, attaining revenue-generating assets of $5 billion, and working toward an appropriate capital structure. In addition, the Corporation will establish and measure financial performance targets by service, region and district. FCC will also examine all lending and loan administration policies to ensure they remain oriented toward maintaining and enhancing business retention and growth.

TO DEVELOP AN EFFECTIVE HUMAN RESOURCE STRATEGY DESIGNED TO PROVIDE EMPLOYEES WITH THE TRAINING AND SUPPORT NEEDED TO ACHIEVE CORPORATE OBJECTIVES.

An organizational model for optimum delivery of FCC's new products and services will be designed. The skills necessary to deliver these products and services will be identified and matched to our current staff complement. Recruitment and staff development plans will be formulated to fill gaps. Training geared toward meeting corporate objectives will be determined and provided. We will use innovative development programs to provide staff with career enhancement opportunities, including assignment programs, career pathing and succession planning.

TO DEVELOP AND IMPLEMENT MARKETING STRATEGIES TO ACHIEVE A $5 BILLION PORTFOLIO OF REVENUE-GENERATING ASSETS BY THE END OF THE PLANNING PERIOD.

A corporate marketing plan will direct and coordinate national marketing efforts and provide research information for strategic planning sessions. Annual marketing plans will follow in subsequent years. We will develop and implement risk-related interest rates in traditional lending areas. FCC will explore alliances with other provinces and agencies. We will aspire to be the agricultural community's lender of choice.

TO MAXIMIZE THE BENEFIT OF FCC'S COMPUTING INVESTMENT THROUGH THE OPTIMUM USE OF CURRENT AND FUTURE SYSTEMS, THE REDESIGN OF WORK PROCESSES AND THE PROVISION OF INTEGRATED INFORMATION IN AN ELECTRONIC FORMAT.

The loan management system software will be tailored and implemented to meet FCC's business requirements. This new system may be operated in a centralized or decentralized mode to provide improved customer service and deliver new loan products.

Corporate technology standards and appropriate computing products will enable our FCC staff to be more efficient, gain greater knowledge of our business activities and improve our ability to provide exemplary service to our clients.



TO BE A CLIENT SERVICE-DRIVEN CORPORATION WITH PRECISE SERVICE STANDARDS THAT RESPONDS TO OUR CLIENTS' EXPECTATIONS.

We will obtain internal and external feedback annually in order to ensure we are continually providing the best possible service to clients. FCC will also link national service standards with the Corporation's key result areas and assign proper accountability. The results of integrating client service into the employee evaluation process will be reviewed.

CHAIRMAN JIM HEWITT (RIGHT) VISITS EARL AND SADIE WALTERS AT THEIR VINEYARD OPERATION IN BEAMSVILLE, ONTARIO.

MANAGEMENT'S REPORT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

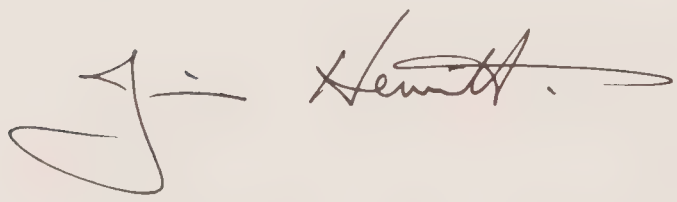
The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for loan losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

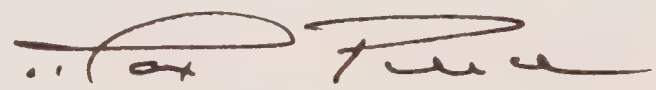
In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which includes a majority of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis, and the auditors have full and free access to the Audit Committee.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.



James J. Hewitt
Chairman and
Chief Executive Officer



Max Pierce
Senior Vice-President, Finance
and Chief Financial Officer

Regina, Canada
May 20, 1994

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Agriculture

I have audited the balance sheet of Farm Credit Corporation as at March 31, 1994 and the statements of operations and deficit and changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management.

My responsibility is to express an audit opinion on these financial statements based on my audit. I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects the financial position of the Corporation as at March 31, 1994 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Corporation Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 20, 1994

Farm Credit Corporation

BALANCE SHEET

as at March 31, 1994

	1994	1993
		(000's)
ASSETS		
Cash and short-term investments	**$ 269,076**	$ 181,116
Accounts receivable	**14,736**	16,742
Investments	**64,396**	–
Loans receivable, net of allowance for loan losses of $126,500 (1993 - $124,000) (Notes 3 and 4)	**3,196,129**	3,184,733
Real estate acquired in settlement of loans (Note 5)	**221,568**	231,944
Office equipment and leasehold improvements	**7,708**	8,452
	$3,773,613	$3,622,987
LIABILITIES		
Accounts payable and accrued liabilities	**$ 14,767**	$ 15,789
Short-term notes	**514,930**	144,571
Downpayments on real estate (Note 6)	**14,906**	11,472
Provision for employee termination benefits	**3,949**	3,936
Deferred loan fees	**8,348**	6,093
Loans payable (Note 7)	**2,899,836**	3,152,560
	3,456,736	3,334,421
EQUITY		
Contributed capital (Note 1)	**1,118,333**	1,118,333
Deficit	**(801,456)**	(829,767)
	316,877	288,566
	$3,773,613	$3,622,987

Approved:

The accompanying notes are an integral part of the financial statements.

James J. Hewitt
Chairman and Chief Executive Officer

George Klosler
Director

Farm Credit Corporation

STATEMENT OF OPERATIONS AND DEFICIT

for the year ended March 31, 1994

	1994	1993
		(000's)
LOAN AND INVESTMENT INCOME		
Interest income		
Loans receivable	**$ 326,751**	$ 336,183
Investment income	**12,043**	16,876
	338,794	353,059
Interest expense	**250,878**	284,436
Net loan and investment income	**87,916**	68,623
Provision for loan losses (Note 4)	**9,608**	–
Net loan and investment income after provision for loan losses	**78,308**	68,623
LEASE AND REAL ESTATE INCOME		
Lease and other revenue	**31,469**	37,081
Operating expenses	**4,548**	4,347
Interest expense	**20,019**	20,785
Net lease and real estate income	**6,902**	11,949
Other income	**2,862**	1,743
NET INCOME BEFORE NON-INTEREST EXPENSES	**88,072**	82,315
Administrative expenses	**59,040**	55,255
Head Office relocation	**–**	5,426
Income taxes – large corporations tax (Note 8)	**721**	1,198
NET INCOME FOR THE YEAR	**28,311**	20,436
Deficit at beginning of the year	**(829,767)**	(850,203)
DEFICIT AT END OF THE YEAR	**$(801,456)**	$(829,767)

The accompanying notes are an integral part of the financial statements.

Farm Credit Corporation

STATEMENT OF CHANGES IN CASH POSITION

for the year ended March 31, 1994

	1994	1993
	(000's)	
OPERATING ACTIVITIES		
Net income for the year	**$ 28,311**	$ 20,436
Items not involving cash		
Provision for loan losses	**9,608**	–
Change in accrued interest receivable	**20,041**	26,278
Change in accrued interest payable	**(19,426)**	(795)
Other	**529**	7,470
CASH PROVIDED BY OPERATING ACTIVITIES	**39,063**	53,389
INVESTING ACTIVITIES		
Long-term investments	**(64,396)**	–
Loans receivable disbursed	**(501,978)**	(294,503)
Loans receivable repaid	**418,267**	368,442
Proceeds from disposal of real estate	**53,044**	40,056
Other	**8,267**	5,149
CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	**(86,796)**	119,144
FINANCING ACTIVITIES		
Loans from Canada	**643,103**	265,000
Loans repaid to Canada	**(759,976)**	(335,732)
Loans from capital markets	**199,549**	30,882
Loans repaid to capital markets	**(317,342)**	(50,000)
Change in short-term notes	**370,359**	(257)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**135,693**	(90,107)
INCREASE IN CASH AND SHORT-TERM INVESTMENTS	**87,960**	82,426
Cash and short-term investments at beginning of the year	**181,116**	98,690
CASH AND SHORT-TERM INVESTMENTS AT END OF THE YEAR	**$ 269,076**	$ 181,116

The accompanying notes are an integral part of the financial statements.

1. The Corporation

(a) Authority and objectives

Farm Credit Corporation ("the Corporation") was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

On April 2, 1993 the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the Farm Credit Corporation with its Head Office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role is to provide mortgage credit and complementary financial services to Canadian farmers and agri-business, and to deliver specific programs of the Government of Canada on a cost-recovery basis.

(b) Contributed capital

Contributed capital of the Corporation constitutes capital payments received from the government. The statutory limit is $1,125 million (1993 - $1,125 million).

(c) Limits on borrowing

The *Farm Credit Corporation Act* restricts the total of direct and contingent liabilities to 12 times the equity of the Corporation. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 1994, the Corporation's total liabilities were 10.91 times the equity of $316.9 million (1993 – 11.56 times the equity of $288.6 million).

2. Significant accounting policies

(a) Revenue recognition

Interest income is recorded on the accrual basis until such time as management determines that a loan should be classified as non-accrual. A loan is classified as non-accrual when:

1) principal or interest is six months past due, unless the loan is well secured, or
2) circumstances indicate doubt as to the ultimate collectibility of principal or interest.

When a loan is initially classified as non-accrual, uncollected interest recognized in the year is reversed against interest income and, where necessary, uncollected interest recognized in previous years is provided for in the allowance for loan losses.

Interest payments on non-accrual loans are recorded as interest income when received where it has been determined that the loan does not require a specific provision for loss; otherwise, they are credited to principal.

Non-accrual loans return to accrual when arrears are eliminated and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Lease and other revenues from real estate are recorded when earned.

Loan fees received as compensation for activities which are integral to a specific lending arrangement are deferred and recognized as interest revenue over the term of the resulting loan. Other loan fees are recorded as other income on the same basis as the related costs.

(b) Allowance for loan losses

The allowance for loan losses represents management's best estimate of probable losses on the loans outstanding at the end of the year in light of current conditions. It has a specific and a general component.

The specific component is determined based on a loan-by-loan review of undersecured loans. Specific provisions are established for individual loans, where circumstances indicate doubt as to the ultimate collectibility of principal or interest, to value these loans at the lower of their recorded investment or the estimated net realizable value of the underlying security for the loans.

The general component, which is prudential in nature, is established to provide for losses on loans which cannot yet be identified on a loan-by-loan basis.

As a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting certain agricultural regions or sectors. Accordingly, management has also considered the impact of specific factors, such as land value trends, federal and provincial government programs, international trade negotiations, future commodity prices and climatic conditions, in establishing the general component of the allowance. However, future agricultural and economic conditions are not predictable with certainty and, therefore, actual loan losses may vary from management's estimate.

Actual loan losses and write-downs of real estate on acquisition, are charged to the allowance, while recoveries are credited to the allowance. Adjustments of the allowance to the level regarded by management as being appropriate are applied to operations.

(c) Real estate acquired in settlement of loans

Real estate is recorded at the lower of the recorded investment in the loan outstanding or the estimated net realizable value of the underlying security of the loan at the time of acquisition. Subsequent declines in estimated net realizable value are charged to the allowance for loan losses.

(d) Farm Debt Review Process

Amounts received from the government on behalf of farmers for concessions granted by the Corporation under the Farm Debt Review process are applied as if they had been received directly from the farmers.

(e) Office equipment and leasehold improvements

Office equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of office equipment and leasehold improvements according to the following methods and rates:

	Methods	**Rates**
Equipment and furniture	Declining balance	20%
Computer equipment and software	Straight-line	20%
Leasehold improvements	Straight-line	Lease term plus the first renewal option.

(f) Translation of foreign currencies

Loans and related interest payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are amortized on a straight-line basis and are charged to interest expense over the lives of the obligations.

(g) Financial instruments

In order to reduce interest rate risk and funding costs, the Corporation uses various types of off-balance sheet derivative financial instruments such as forward rate agreements, currency swaps and interest rate swaps. The cost of these instruments is amortized on a straight-line basis over the life of the instrument and reported as interest expense.

(h) Investments

Investments, acquired primarily for the purpose of asset/liability management, are carried at cost adjusted for amortization of premiums or discounts to maturity. Interest revenue and gains and losses on disposal are reported as investment income.

(i) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to matching the employees' contributions for current service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

(j) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(k) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred income tax benefits which have not been recorded and will only be recognized when there is virtual certainty of realization.

3. Loans receivable

	Annual interest rate (%)	**1994**	1993
			(000's)
Loans secured by mortgages	5 – 15 1/4	**$3,198,474**	$3,152,414
Loans secured by notes	6 7/8 – 14 5/8	**10,170**	13,430
Loans receivable from real estate sales, secured by agreements for sale or mortgages	5 – 14 5/8	**29,141**	33,323
		3,237,785	3,199,167
Accrued interest – current		**69,913**	81,620
– arrears		**14,931**	27,946
		3,322,629	3,308,733
Less: Allowance for loan losses		**126,500**	124,000
		$3,196,129	$3,184,733

At March 31, 1994, the Corporation had 2,613 loans representing $250 million of loans receivable classified as non-accrual (1993 – 3,374 representing $338 million). During the year, interest not recognized on non-accrual loans amounted to $0.5 million (1993 – $13 million). The accumulated interest not recognized on non-accrual loans outstanding at March 31, 1994 amounted to $39 million (1993 – $58 million).

4. Allowance for loan losses

	1994	1993
		(000's)
Balance at beginning of the year	**$124,000**	$160,000
Write-offs, net of recoveries	**(13,189)**	(27,648)
Declines in value of real estate	**(1,575)**	(8,352)
Provision for loan losses	**9,608**	–
Allowance on portfolio purchased during the year	**7,656**	–
Balance at end of the year	**$126,500**	$124,000
Specific allowance	**$ 11,500**	$ 24,000
General allowance	**115,000**	100,000
Balance at end of the year	**$126,500**	$124,000

5. Real estate acquired in settlement of loans

	1994	1993
	(000's)	
Balance at beginning of the year	**$231,944**	$222,595
Acquisitions	**36,841**	60,728
Disposals	**(45,642)**	(43,027)
Declines in value of real estate	**(1,575)**	(8,352)
Balance at end of the year	**$221,568**	$231,944

Real estate represents farm property acquired in the process of administering loans receivable.

Real estate under long-term leases may be subject to renewal at the expiry of the original lease term. Lease maturities by fiscal year are as follows:

	1994	1993
	(000's)	
Not currently leased	**$ 31,019**	$ 15,819
1994	**–**	93,797
1995	**119,647**	71,055
1996	**70,902**	51,273
	$221,568	$231,944

6. Downpayments on real estate

	1994	1993
	(000's)	
Equity-building fund	**$ 9,584**	$ 7,849
Downpayments on real estate sales	**5,322**	3,623
	$ 14,906	$ 11,472

The Corporation may, through the equity-building lease programs, lease real estate acquired in settlement of loans back to the former owner ("the lessee"). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Corporation. At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

7. Loans payable

	Annual interest rate (%)	1994	1993
		(000's)	
Loans from Canada, secured by notes	5 1/4 – 11	**$2,303,118**	$2,417,898
Loans from capital markets, secured by notes			
Payable in:			
U.S. dollars (200,000,000)	9 – 9 1/8	**274,740**	507,987
Swiss francs (100,000,000)	11	**–**	59,666
Canadian dollars	4 1/4 – 10 3/4	**260,277**	85,882
		2,838,135	3,071,433
Accrued interest		**61,701**	81,127
		$2,899,836	$3,152,560

Amounts due by fiscal year are as follows:		
1994	**$ –**	$ 621,931
1995	**392,636**	401,902
1996	**325,161**	312,975
1997	**478,830**	529,684
1998	**537,329**	354,779
1999	**397,007**	186,723
2000 and thereafter	**707,172**	663,439
	2,838,135	3,071,433
Accrued interest	**61,701**	81,127
	$2,899,836	$3,152,560

In order to manage interest rate risk exposures in the portfolio, the Corporation has renegotiated the terms of some of its loans from Canada and will continue to pursue renegotiation of its debt.

8. Income taxes

(a) The loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $717 million and expires on the dates indicated:

	(000's)
March 31, 1996	$ 97,000
1997	480,000
2001	140,000
	$717,000

During the current year the Corporation will incur no income tax expense, other than the large corporations tax ("LCT").

(b) Income taxes payable by the Corporation relate to the LCT, which may be offset against any current or future surtaxes payable. The Corporation has no surtax currently payable.

9. Commitments to borrowers

As at March 31, 1994, loans to farmers and agri-businesses approved but not disbursed amounted to $10 million (1993 – $8 million). These loans were approved at interest rates from 6.125% to 9.875%. It is expected that the majority of these loans will be disbursed by September 30, 1994.

10. Operating leases

Future minimum payments by fiscal year on operating leases for premises, with initial non-cancellable lease terms in excess of one year, are as follows:

	(000's)
1995	$ 3,970
1996	3,318
1997	2,829
1998	2,420
1999	2,086
2000 and thereafter	4,086
	$18,709

These leases generally provide for payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

11. Government program

Farm Debt Review Process

During the year, the Minister of Agriculture was authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the *Farm Debt Review Act*. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments.

Since the inception of the Farm Debt Review process, the Corporation has offered $275 million in concessions and billed $247 million to the government, of which $33 million was billed in the current year. The committed difference of $28 million will be due and received over the next five years as farmers meet their commitments and thereby realize the benefits of the concessions.

Government funding for new concessions under the *Farm Debt Review Act* ceased effective March 31, 1994.

12. Financial instruments with off-balance sheet risk

In order to manage exposure to fluctuations in interest rates and foreign exchange, the Corporation uses hedges and derivative financial instruments with off-balance sheet risk.

The Corporation limits its exposure to the risk of non-performance by the counterparty to a transaction by contracting only with financial institutions having a very high credit rating and by applying procedures designed to ensure proper credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties to these transactions.

The contractual or notional principal amounts of financial instruments outstanding at March 31, 1994, were as follows:

	1994	1993
	(000's)	
Currency swaps	**$388,740**	$681,083
Interest rate swaps	**$138,000**	$ 63,000
Forward rate agreements	**$188,433**	$ 39,000

13. Subsequent event

On April 15, 1994, the Corporation announced an extended leasing program. As a result, an agreement was reached with the province of Saskatchewan and litigation previously filed against the Corporation related to the *Saskatchewan Farm Security Act* has been resolved.

14. Comparative figures

Certain 1993 comparative figures have been reclassified to reflect the presentation adopted in 1994.

FCC LOAN PRODUCTS

FCC's single industry focus allows us to develop unique and specialized loan products for farmers. We make loans to new and established farmers across Canada with or without off-farm income, regardless of the size of their farm operation. For many years we have provided stable long-term credit and other innovative loan programs.

Clients can expect rapid service, with flexible repayment options. Our professional Credit Advisors are also happy to provide counselling during the loan application and approval process. Credit Advisors have access to a sophisticated computerized farm financial analysis system. They are always available to give financial advice to clients throughout the life of the loan.

PRODUCTS	FEATURES	BENEFITS
MEDIUM AND LONG-TERM LOANS	• Fixed interest rate terms of 3, 5, 10, 15 years or longer • Annual 10 per cent pre-payment option at no penalty on the five-year conventional loan	• Farm cash flow planning made easier with fixed payments • Peace of mind during periods of interest rate volatility
SHARED RISK MORTGAGES (NON-CONVERTIBLE)	• Six-year term with rate adjustments shared equally by borrower and FCC • Ceiling of 2½ per cent on increases • Variable payment plan	• Cushioned impact from volatile interest rates • Stability by minimizing exposure to fluctuating interest rates • Especially beneficial when interest rates fall
ONE-YEAR CONVERTIBLE MORTGAGE	• One-year term, convertible to 3, 5, 10, 15-year term or longer	• Possibility to lock in for a longer term at any time • Flexibility while still retaining the lower interest rate of a short-term loan • Options kept open as interest rates fluctuate • Convertibility to a longer term without penalty

ALL FCC PRODUCTS FEATURE:

Flexible payment options (annual, semi-annual or monthly)

•

Real property, chattel mortgage, general security agreement, or promissory notes acceptable for intermediate-term loans (3-10 years) to purchase equipment

•

Quick delivery of funds

•

Amortization periods of up to 29 years

BOARD OF DIRECTORS



MEMBERS OF THE BOARD

The Board of the Corporation has seven members appointed by the Governor in Council.

The Chairman and President are also officers of the Corporation. The Chairman is the Chief Executive Officer and, as such, directs and supervises the operations of the Corporation.

Left to Right

FRED MCCAIN*, NEW BRUNSWICK

C. GERALD PENNEY, PRESIDENT

GEORGE KLOSLER*, ONTARIO

JAMES J. HEWITT*, CHAIRMAN

JEANNINE CARON-GIASSON, QUÉBEC

DON SWENSON, SASKATCHEWAN

DESMOND GEORGE, BRITISH COLUMBIA

* Member of the Audit Committee

OFFICERS & MANAGEMENT

EXECUTIVE

James J. Hewitt
Chairman and Chief Executive Officer

C. Gerald Penney
President and Chief Operating Officer

SENIOR MANAGEMENT

Head Office

Max Pierce
Senior Vice-President, Finance and Chief Financial Officer

Terry Kremeniuk
Senior Vice-President, Planning and Credit

Dale Canham
Vice-President, General Counsel and Corporate Secretary

Louise Neveu
Vice-President, Corporate Management Services

Pierre Laflamme
Vice-President, Corporate Audit

Terry Craig
Vice-President, Lending Operations

Ian McCrea
Controller

M. Blake Walker
Vice-President and Treasurer

Regional Vice-Presidents

George Jones
Alberta/British Columbia

Russ Holm
Saskatchewan

Marshall Stachniak
Manitoba

Bob Aumell
Ontario

Jacques Doran
Québec

John van Abbema
Atlantic

Don Jackson
General Manager, Agri-Land Sales and Leasing

FCC LOCATIONS

REGIONAL OFFICES	DISTRICT OFFICES	FIELD OFFICES
ALBERTA/ BRITISH COLUMBIA Exchange Tower Suite 1550 10250 -101st Street Edmonton, Alberta T5J 3P4 (403) 495-4488 *Yukon Territory is served through the Edmonton Office*	Grande Prairie, Kelowna, Lacombe, Lethbridge, Vegreville, Westlock	Abbotsford, Athabasca, Barrhead, Brooks, Calgary, Camrose, Dawson Creek, Drumheller, Edmonton, Evansburg, Fairview, Falher, Hanna, Medicine Hat, Olds, Peace River, Stettler, St. Paul, Vermilion, Wainwright, Wetaskiwin
SASKATCHEWAN Suite 900 1801 Hamilton Street Regina, Saskatchewan S4P 4L5 (306) 780-5610	North Battleford, Regina, Saskatoon, Swift Current, Yorkton	Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, Prince Albert, Rosetown, Tisdale, Weyburn, Wynyard
MANITOBA 400-5 Donald Street Winnipeg, Manitoba R3L 2T4 (204) 983-4039	Brandon, Portage la Prairie	Arborg, Carman, Dauphin, Killarney, Morden, Morris, Neepawa, Steinbach, Stonewall, Swan River, Virden
ONTARIO 2nd Floor 450 Speedvale Ave. West Guelph, Ontario N1H 7G7 (519) 821-1330	Chatham, Guelph, Lindsay, Nepean, Walkerton, Woodstock	Barrie, Campbellford, Casselman, Essex, Goderich, Kingston, Lambeth, Listowel, New Liskeard, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Wyoming
QUÉBEC Édifice Champlain Suite 2000 2700 Laurier Blvd., Box 3600 Ste-Foy, Québec G1V 4C7 (418) 648-3993	Ste-Foy, St-Hyacinthe, Sherbrooke	Alma, Arthabaska, Drummondville, Gatineau, Granby, Joliette, Rimouski, Roberval, St-Georges de Beauce, St-Jean, St-Jérôme, Trois-Rivières, Valleyfield
ATLANTIC Suite 230 1133 St. George Blvd. Moncton, New Brunswick E1E 4E1 (506) 851-6595	Charlottetown, Moncton	Grand Falls, Kentville, St. John's, Summerside, Sussex, Truro, Woodstock

FOR MORE INFORMATION CONTACT:

Farm Credit Corporation

1800 Hamilton Street

Regina, Saskatchewan

S4P 4K7

Telephone: (306) 780-8100

La version française de ce rapport est
à votre disposition sur demande.

CREDITS:

Design & Production: BROWN + ASSOCIATES ADVERTISING,
Regina, Saskatchewan

French Translation: Violette Talbot,
Gatineau, Québec

Electronic Pre-press: TRUECOLOR GRAPHICS LTD.,
Regina and Saskatoon, Saskatchewan

Printing: PRINTWEST COMMUNICATIONS,
Regina, Saskatchewan

FCC SCA

Farm Credit Corporation

Société du crédit agricole

Canada

CA1
DB41
-A55

Government
Publications

JUN 2 1995
University of Toronto



ANNUAL REPORT 1994-1995

FCC SCA
Farm Credit Corporation
Société du crédit agricole

CONTENTS

CHAIR'S MESSAGE	**2**
FINANCIAL HIGHLIGHTS	**3**
PERFORMANCE AGAINST OBJECTIVES	**8**
MANAGEMENT'S REPORT	**26**
FINANCIAL STATEMENTS	**28**

COVER PHOTOGRAPH: THREE GENERATIONS OF THE PETRAR FAMILY TALK TO FCC CREDIT ADVISOR GABE GHEBREZ AT THEIR GRAIN AND BEEF OPERATION NEAR DYSART, SASKATCHEWAN.

FCC'S PURPOSE

To enhance rural Canada by providing specialized and personalized financial services to farming operations, individuals, family firms, and to value-added agricultural businesses.

CORPORATE PROFILE

Farm Credit Corporation (FCC) is Canada's largest agricultural long-term lender and is dedicated to serving the financial needs of Canadian farmers. A Crown corporation that reports to Parliament through the Minister of Agriculture and Agri-Food, FCC received a new and broader mandate with the passage of the *Farm Credit Corporation Act* on April 2, 1993.

In addition to traditional lending, FCC can also finance on-farm diversification projects and value-added agricultural operations beyond the farm gate. FCC is now in a position to deliver joint programs and services with federal agencies, provincial governments and other lenders.

FCC has a loan portfolio of some 56,000 accounts, valued at $3.5 billion. More than 760 employees serve clients from over 100 offices across Canada. FCC's corporate office is located in Regina, Saskatchewan.

The Honourable
Ralph E. Goodale, P.C., M.P.
Minister of Agriculture and Agri-Food
9th Floor, Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario
K1A 0C5

The Honourable
Art Eggleton, P.C., M.P.
President of the Treasury Board
Room 207, Confederation Building
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Ministers:

On behalf of the Board of Directors, it is an honour and a pleasure to submit the annual report of Farm Credit Corporation (FCC) for the fiscal year ended March 31, 1995.

The report includes the financial statements and the auditor's report thereon, in accordance with the *Financial Administration Act*.

The commitment and effort of the entire FCC team has meant that the Corporation continues to meet the objectives articulated in its corporate plan.

In addition, it should be noted that lending volume increased by 23 per cent over the previous year to $632 million. The total loan portfolio grew by 7 per cent while loans in arrears declined by 34 per cent.

The Corporation's net income for the year increased by 51 per cent to $42.7 million. You will be pleased to learn that in light of this very strong financial performance and in recognition of the continued support of our shareholder, the Board of Directors has declared a dividend of $4 million payable September 30, 1995.

Yours sincerely,

Donald W. Black
Chair

CHAIR'S MESSAGE

FCC is caught up in a period of rapid change in the financial services industry. As a new Chair, I have a fresh opportunity to reflect on the roles we play in response to this changing environment.

Without a doubt, the Chair's role must be that of advocate, on behalf of FCC management, with colleagues on the Board and with the Minister. The Board's role is not to micro-manage, but rather to set policy guidelines that help management achieve its objectives within its demanding day-to-day environment. The Board has to be a catalyst for action and a facilitator that moves new initiatives through the system, with the Chair providing to the Minister the sound rationale and business case for priorities that have been established.

Experience leading private and public sector corporations has shaped my conviction that it is appropriate to separate the duties of Chief Executive Officer and Chair. The Board has difficulty providing the essential sober second thought on initiatives if its leader is also part of executive management.

I look forward to working with the members of the FCC Board, as well as with Gerry Penney and his management team, to ensure that the Corporation plays a strong leadership role among the organizations working for the benefit of rural Canada.

Donald W. Black, *Chair*

BOARD OF DIRECTORS

The Board of the Corporation has nine members appointed by the Governor in Council. The Chair and the President are also officers of the Corporation. The President is the Chief Executive Officer and, as such, directs and supervises the operations of the Corporation.



Front row, left to right: ***Donald W. Black****, Chair;* ***C. Gerald Penney****, President and Chief Executive Officer. Back row, left to right:* ***Warren Ellis****, P.E.I.;* ***Jeannine Caron-Giasson****, Québec;* ***Joan Meyer****, Saskatchewan;* ***Howard Fuller****, Nova Scotia. Not pictured:* ***Eleanor Hart****, Ontario;* ***Lois Hole****, Alberta; and* ***Peter Rampton****, Manitoba.*

FINANCIAL HIGHLIGHTS

OPERATIONAL	1994-1995	1993-1994	1992-1993	1991-1992	1990-1991
Total Loans Receivable Portfolio					
Number	**56,760**	55,455	56,687	59,845	61,475
Amount ($ Millions)	**3,535.7**	3,322.6	3,308.7	3,503.1	3,611.0
Number of Loans Approved	**6,428**	5,117	2,734	3,244	2,131
Amount of Loans Approved					
Gross ($ Millions)	**658.2**	553.9	285.4	365.8	193.7
Net ($ Millions)	**631.9**	511.7	277.1	334.6	180.1
Average Size of Loans Approved – Net ($)	**98,308**	100,013	109,696	119,148	94,633
Percentage of Loans in Good Standing	**95.9**	95.0	92.0	89.2	87.9
Percentage of Total Owing in Good Standing	**95.4**	94.3	87.8	82.1	79.6
Real Property Held at Year End					
Number	**2,529**	2,758	2,803	2,609	2,371
Value ($ Millions)	**196.6**	221.5	231.9	222.6	224.7

FINANCIAL					
Revenues and Expenses ($ Millions)					
Net Loan and Investment Income*	**99.2**	87.9	68.6	66.4	–
Net Interest Income*	**–**	–	–	–	47.4
Net Provision (Recovery) for Loan Losses	**9.7**	9.6	–	(12.8)	3.7
Net Lease and Real Estate Income*	**8.6**	6.9	11.9	15.3	–
Lease Revenue*	**–**	–	–	–	35.4
Other Income	**6.9**	2.9	1.7	2.1	–
Administrative Expenses	**60.2**	59.0	55.3	55.7	52.5
Large Corporations Tax	**2.1**	0.7	1.2	6.0	6.2
Income for the Year	**42.7**	28.3	20.4	21.6	20.4
Non-Accrual Loans					
Number	**2,376**	2,613	3,374	4,209	4,333
Total Owing ($ Millions)	**218.0**	250.0	338.0	445.0	485.3
Reduction of Interest Income Due to Non-Accrual ($ Millions)	**0.9**	0.5	13.1	21.3	21.6
Financial Position ($ Millions)					
Total Assets	**3,986.3**	3,773.6	3,623.0	3,686.9	3,810.4
Total Liabilities	**3,626.7**	3,456.7	3,334.4	3,418.8	3,663.8
Equity of Canada	**359.6**	316.9	288.6	268.1	146.6

** Prior to the 1991-1992 fiscal year, the Corporation did not produce the information necessary to allocate interest carrying costs between Loans Receivable and Real Estate. For periods prior to April 1, 1991, total interest expense is reported as a deduction in calculating Net Interest Income.*

PRESIDENT'S MESSAGE

In many respects 1994 was a year marked by new initiatives for everyone involved in Canada's agriculture industry. This was certainly true for FCC's senior management team and all FCC staff, as we continued the task of fundamentally re-shaping our organization to position the Corporation for the future. Just as our clients understand the need to diversify and add value to primary products in today's dynamic agricultural trade environment, FCC is adapting so that it can play a more active role in financing new value-added and agriculture-related ventures in rural Canada.

There were several key developments in the agricultural trading environment over the past year. These included the continued development of trading arrangements under the North American Free Trade Agreement (NAFTA), and the increasing likelihood that some South American countries will join NAFTA within a few years. Multilateral trading arrangements such as NAFTA and the new World Trade Organization offer increased export opportunities in a more stable trading environment for Canadian producers. However, two measures announced in the recent federal budget – the removal of the Crow freight rate subsidy and a reduction in dairy subsidies – introduced new uncertainties and opportunities.

A YEAR OF STRONG PERFORMANCE FOR FCC

Overall, 1994 was a year of cautious optimism, as Canada's farm sector experienced a strong recovery buoyed by better weather, higher prices and strong exports encouraged by a low Canadian dollar.

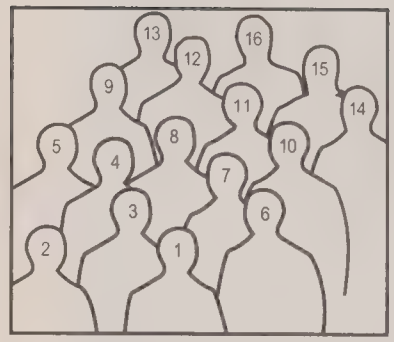
The strong recovery and an improved sense of optimism among Canadian farmers was reflected in FCC's strong performance during 1994/95. Lending volumes rose by 23 per cent during the year, including a solid increase in our traditional lending portfolio, complemented by steady growth in agriculture-related value-added and diversification ventures under our expanded mandate, as our clients show a growing awareness of FCC's ability to finance these projects.

New types of loan activity include specialized commodity storage and transport, on-farm manufacturing and processing initiatives and co-operative or municipal water projects. Initiatives such as these provide crucial employment in local communities, and help develop Canada's rural infrastructure. During the year, the Corporation's mandate was expanded to include aquaculture and agri-forestry. We are now investigating these niche markets so that we can make informed decisions in financing these sectors. FCC is committed to develop and deliver products that will assist Canada's farmers to compete in a globally competitive market place.

SENIOR MANAGEMENT TEAM

FCC's Senior Management Team's (pictured below) responsibilities were realigned in April 1995 to reflect the Corporation's positioning for the future.





1. ***Gerry Penney***, *President and CEO*
2. ***Pierre Laflamme***, *V.P. Corporate Audit*
3. ***Jacques Doran***, *Exec. V.P. Systems Re-engineering*
4. ***Bob Aumell***, *Exec. V.P. Corporate Restructuring*
5. ***Russ Holm***, *V.P. Prairie Region*
6. ***Terry Kremeniuk***, *V.P. Western Region*
7. ***Terry Craig***, *V.P. Lending and Marketing*
8. ***Marshall Stachniak***, *V.P. Ontario Region*
9. ***M. Blake Walker***, *V.P. and Treasurer*
10. ***Paul Lawrence***, *Exec. Assistant to the President and CEO, and Asst. Corporate Secretary*
11. ***Louise Neveu***, *V.P. Corporate Management Services*
12. ***Max Pierce***, *Exec. V.P. and Chief Economist*
13. ***Dale Canham***, *V.P., General Counsel and Corporate Secretary*
14. ***Don Jackson***, *General Manager, Agri-Land*
15. ***Marie-José Bourassa***, *V.P. and Controller*
16. ***John van Abbema***, *V.P. Eastern Region*

BUSINESS ACTIVITY

In 1994/95 the Corporation recorded another year of growth in the size of its portfolio, which grew from $3.3 billion to $3.5 billion. Loans approved totalled $631.9 million, compared to $511.7 million in 1993/94. Loans to producers with value-added enterprises, farms with off-farm income sources, non-mortgage loans and increases to FCC's loan limits have resulted in more than $240 million worth of business to the Corporation. Loan arrears dropped to $28.9 million from $36.6 million in 1993/94. FCC recorded a net income of $42.7 million, compared to $28.3 million last year.

The Corporation's financial statements indicate that FCC is well positioned to participate in the economic recovery in the farm sector, and is benefiting from its ability to offer a broader range of loan products to a larger group of clients.

FCC employs a variety of derivative instruments, primarily swaps, in managing its exposure to fluctuations in market interest rates and foreign exchange rates. Derivatives provide valuable tools for the purpose of risk mitigation. FCC follows a conservative course in its use of derivatives for asset/liability management purposes. At March 31, 1995 the total notional principal of interest rate and currency swap contracts used for asset liability/management purposes was $553.1 million.

This was the first year of operation for FCC's properties division, Agri-Land Sales and Leasing. The separation of the Corporation's lending function from land management has proven to be beneficial to both functions. Agri-Land offers a five-year investment lease, which includes an equity building option for farmers seeking to accumulate equity and eventually purchase the property. Currently, an extremely high percentage of the Agri-Land portfolio is leased to former owners, which meets our objective to reduce our land holdings over the coming years and to help farm families re-establish land ownership.

FCC took a leadership role early in 1995 by offering tenants who purchase their land the entire *Western Grain Transportation Act* (WGTA) payout directed to land owners. Continuing lessees will receive annual adjustments to their lease rates to ensure they reflect market changes. We believe that sharing our WGTA payments will help many lessees gather enough capital to repurchase their farms.

For a more detailed view of the year's operations, please refer to the Financial Statements and the Management Discussion and Analysis sections of this report.

NEW BOARD OF DIRECTORS

This year also ushered in a brand-new Board of Directors for FCC. We were pleased to welcome new Chair Don Black in January and new Board members Joan Meyer, Howard Fuller, Lois Hole, Warren Ellis, Eleanor Hart and Peter Rampton.
We said farewell to former Chair Jim Hewitt, who retired in December after seven years of dedicated service to FCC. Previous Board members Fred McCain, George Klosler, Don Swenson and Desmond George also completed their terms this year. Jeannine Caron-Giasson will complete her term in June 1995. I would like to express my deep appreciation for the contribution of Jim, the members of the Board and the senior management team in leading FCC through a period of incredible change.

THE FUTURE

Competition and government fiscal restraint are having a significant impact on Canada's agricultural industry, which will continue to be felt for many years to come. Canada is fortunate to be a world leader in agricultural production, and for the quality of its research and development activities. Farmers recognize that while primary agricultural support is being reduced, export opportunities for new value-added products are expanding.

Many Canadian farmers are aggressively seeking domestic and export niche markets for their products, as marketing becomes a key element in successful agricultural enterprises. Over the past year the Corporation has held discussions with a variety of farm groups across the country to explore ways that FCC can further assist agriculture-related diversification projects. Our concern is that even with our expanded mandate, the legislation proclaimed two years ago still inhibits our ability to finance specific proposals. That fact is yet another measure of the dynamic environment in which our clients operate, and further reason to re-visit FCC's legislative mandate. FCC must have the ability to adapt to change, in order to provide superior service to our clients, and to help ensure the sustainability of rural Canada and FCC.

Strategic alliances are being developed within agriculture at a rapid rate. During the year, FCC initiated discussions with a number of other organizations such as provincial agencies and other lending institutions, searching out opportunities to work together for the benefit of rural Canada. Our expectation is that some of these discussions will come to fruition in the coming year, contributing to greater prosperity in our agricultural and rural communities.

My report would not be complete without mentioning my deep appreciation of our entire staff and our Board. All of us are excited by the countless opportunities opened up for FCC by the initiatives our team has begun. We are also struck by the imagination and determination shown by members of the agricultural community we serve. As we work toward our common goal of a vibrant and prosperous rural Canada, we welcome and actively solicit your ideas regarding the direction the Corporation is taking.

C. Gerald Penney
President and Chief Executive Officer

PERFORMANCE AGAINST OBJECTIVES

Objective 1: To ensure the Corporation's ongoing financial viability.

Strong growth characterized FCC's performance over the past year. Our 1994/95 net income was $42.7 million, compared with $28.3 million during 1993/94, making this the fifth consecutive year the Corporation has recorded a profit. Several factors contributed to increased profitability, including an increase in lending volumes, a more diversified portfolio, fewer loans in arrears, lower loan losses, and fewer property acquisitions. Besides a healthier loan portfolio, FCC also continued to improve its debt-to-equity ratio, which contributes further to the Corporation's long-term viability.

FCC redesigned our Portfolio Risk Management Model to better assess the risk for our clients in today's market place. Our clients are experiencing changes to their working environment prompted by diversification of farm operations, new multilateral trading arrangements, reduced or eliminated domestic subsidy programs and a more market-oriented trend toward farming, in general.

The changing conditions facing our clients and FCC's broadened mandate have meant new responsibilities for our staff, who now must assess a wider range of enterprises. To enhance the skills of FCC staff in assessing non-traditional agriculture and value-added enterprises, FCC contracted the Federal Business Development Bank to assist in the development and delivery of courses on risk assessment.

Objective 2: To develop an effective human resources strategy designed to provide employees with the training and support needed to achieve corporate objectives.

Fostering the personal and professional growth of staff at all levels is central to our continuing effort to improve the way we do business. To meet our clients' changing needs, FCC staff will require diverse skills in order to deliver the appropriate products and services.

FCC is taking an aggressive, multi-faceted approach to human resource management, involving several intensive research projects undertaken during the year. Research is critical to the development of a long-term, flexible human resources plan to support Vision 2000, a comprehensive review of Farm Credit Corporation with a mandate to recommend a new, more future-oriented structure for the organization.

To be successful, these initiatives require human resource information that is accurate, complete and easily accessible. FCC purchased a computer application in 1994 to provide the technological support to administer employee compensation



LEFT TO RIGHT: MONCTON CREDIT ADVISOR SYLVAIN BANKS-GADBOIS AND TYSON RICHARDSON ADMIRE A 20-POUND SALMON GROWN AT RICHARDSON'S OPERATION NEAR ST. GEORGE, N.B. AQUACULTURE IS A NEW LENDING AREA FOR FCC.

and benefits. Over the longer term, the application also makes it possible to introduce a wide variety of programs in support of the human resources strategy and corporate objectives, including the identification of core competencies within the Corporation. The core competencies project began this year and will allow FCC to be more future-oriented in defining the attributes of the ideal workforce, and in matching staff development to its business requirements. Managers will be able to recruit more effectively and identify gaps more accurately which can be filled by training and development programs. This project is also essential to the creation of an effective succession planning program and employee career development.

One key element supporting these initiatives will be the Human Resource Index®, which measures 15 factors to ensure the best human resources practices are employed throughout the organization. In other organizations, the Index has proven to be a reliable instrument in identifying strengths and weaknesses.

Other support for employees includes a revamped and enhanced employee assistance program introduced in June 1994. This program provides confidential counselling to employees and members of their families by one of Canada's largest health consulting companies. Long Service Awards also were introduced during the year to recognize the loyalty and commitment of our employees.

Objective 3: To develop and implement marketing activities to maintain a $3 billion portfolio of revenue-generating assets by the end of the planning period and to achieve the targeted financial performance in each fiscal year.

As a marketing organization with an expanded mandate, FCC developed a corporate marketing strategy which will direct our efforts to help rural Canadians achieve their goals, by responding to their financing needs. Guided by periodic market surveys and other information gathered by field staff, FCC introduced a number of new products and features. Most notably, the Family Farm Loan, which facilitates the intergenerational transfer of farm assets, was highly successful in generating interest in FCC and its services.

Other new offerings during the year included a variety of rate options added to the traditional long-term loans, and non-mortgage, intermediate term loans for farmers looking to finance equipment, quota or livestock purchases.

Less complicated loan applications are now handled by a fast track process for purchases like equipment. FCC clients can also arrange pre-authorized term credit for up to one year in advance of when they will need the funds.

Marketing studies commissioned by the Corporation show that an innovative advertising campaign was successful in raising awareness of FCC's services. The advertising materials won several awards from the Canadian Agri-Marketing Association.

FCC is involved in several initiatives with other organizations where our products and services complement each other. These are described in the Management Discussion and Analysis section of this report on page 13.

Objective 4: To maximize the benefit of FCC's computing investment through the optimum use of current and future systems, the redesign of work processes and the provision of integrated information in an electronic format.

FCC is well positioned to manage the myriad of information related to its traditional business and its expanded role in financing ventures related to agriculture. The Corporation chose to purchase a loan management system software package from the world's largest vendor of banking software, customized to meet Canadian agricultural finance needs.

The new system improves the Corporation's ability to introduce new loan products, and enables local FCC offices to provide an enhanced level of service to customers. All staff managing the system received training prior to its introduction. It handled all new business across the country by the end of March 1995. Existing accounts will be converted to the system during the coming year.

Field staff also received contact management software to help them manage their customer service activities.



FCC'S PRAIRIE REGION DONATED USED COMPUTERS TO EDENWOLD SCHOOL IN RURAL SASKATCHEWAN. IN APPRECIATION, THE STUDENTS PRESENTED THIS HANDMADE QUILT AND SEVERAL PAINTINGS (SEE INSET) TO RUSS HOLM (LEFT) AND WES GORDON (RIGHT) OF FCC. INSET: ARTWORK BY CLAYTON KASHUBA, GRADE ONE, EDENWOLD SCHOOL.

Objective 5: To be a client service driven corporation with precise service standards that respond to our clients' expectations.

Service to clients – both our external customers and among staff within FCC – is central to our ability to meet the demands of a changing marketplace. Client service standards were developed in 1992 with the input of staff and clients to serve as a blueprint to ensure efficient and high-quality service at all levels. Our staff's commitment to customers is key to our success in client service.

The success of this commitment was validated by two national client satisfaction surveys we conducted last year to measure the relevance and effectiveness of FCC service standards. The results indicated high satisfaction levels: more than half of those surveyed believe FCC's performance has improved in the past three years, in such areas as products, flexibility, industry knowledge, and interest in the farmer's business.

As a result of these survey findings, FCC is reviewing service standards to ensure they reflect our clientele's changing needs and expectations. We will continue to solicit the views and opinions of the farming public to ensure we are providing a high level of service to Canada's farmers and businesses related to agriculture in rural Canada.

As part of the service standards initiative, virtually all staff have received intensive client service training, and the standards will be used as a tool to facilitate a closer link between client service and measurement of individual employee performance.

OPERATING ENVIRONMENT

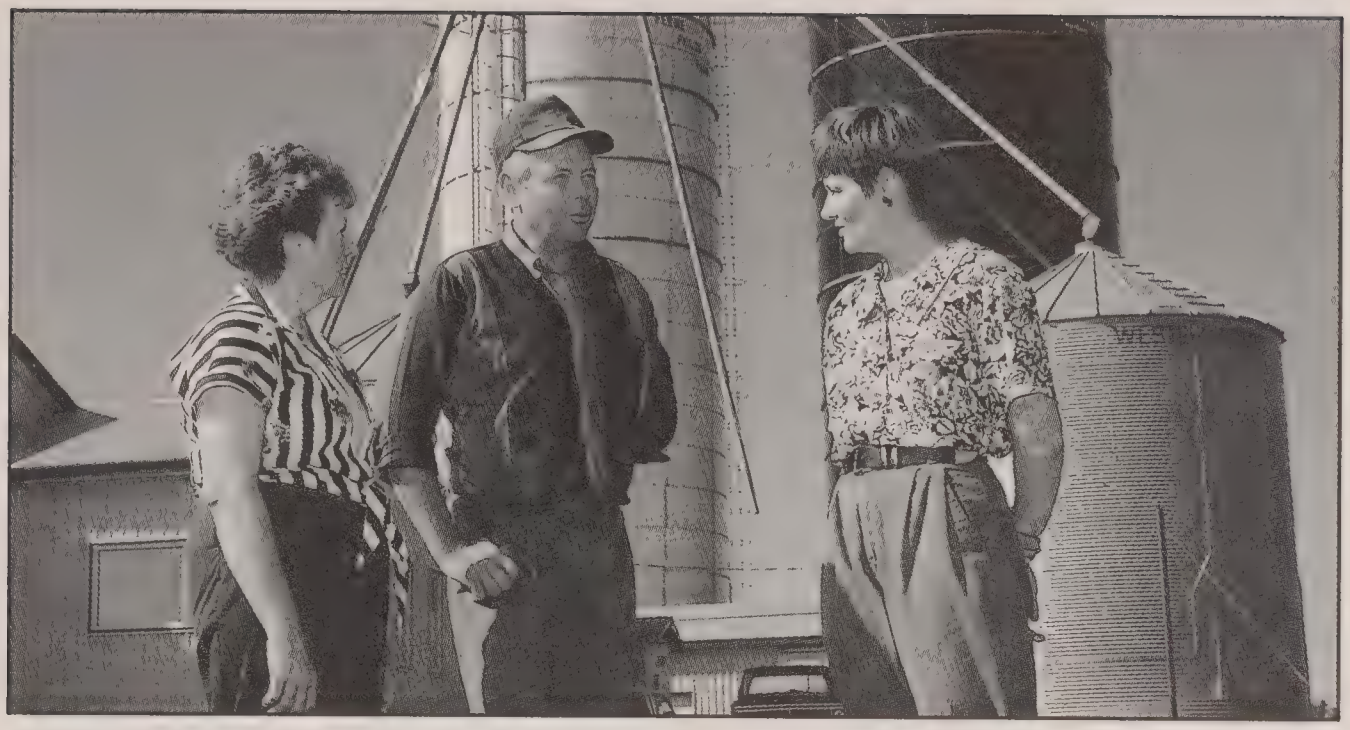
Just a few short years ago, it was easy to identify where the farm gate began and ended. Today, that clear demarcation line between the primary producer and the rest of the agri-food industry is blurring. Farmers, rural communities and farm-related businesses are adjusting to competition in a dynamic global economy that emphasizes value-added processing.

Agriculture has become a huge global industry with a host of emerging niche markets to be identified and serviced. For instance, consumers in Asia, South America and elsewhere represent relatively untapped markets for Canada. Increasing income levels and consumer demand for better nutrition, particularly in Asia, mean greater demand for the specialized oilseed, meat and other food products that Canada can supply. Recent decisions by multinational food processing companies to locate world-scale beef and oilseed processing plants in Western Canada confirm our country's ability to compete in these export markets. To be successful, producers must find sales channels for their goods, and ensure what they grow is in tune with marketplace demands.

In this emerging national and international environment, Canadian producers, rural communities, governments and other agricultural players are experiencing a fundamental attitude shift evidenced by increasing production of specialty crops, a much better sense of the marketplace – including the tourism market – and greater emphasis on factors such as consumer needs, technology, and exotic or intensive livestock operations. The federal government is providing informational programs to help farmers stay informed about local, national and international trends, and to capitalize on emerging niche markets. The success of the recent "Team Canada" trade missions to Asia and South America demonstrate the benefits of focusing our efforts and the value of developing strategic alliances to achieve common goals.

Trade missions, research and other forms of support are integral to the government's policy goal to dramatically increase Canada's agricultural exports. Success will only be achieved with the involvement of all agricultural sector players. Producers and stakeholders are taking a larger role in managing the industry, as it becomes apparent that there are limits on what governments can do in the evolving global marketplace.

FCC monitors a wide range of national and international factors to understand the financial marketplace, so that we can effectively meet the changing needs of our clients by offering enduring and innovative products and services. Empowered by our 1993 legislative mandate, FCC has actively sought new ways to offer a broadened range of agricultural finance services to farmers. Financing on-farm and off-farm diversification and value-added projects related to farming is important to ensure a thriving agricultural sector, which is linked directly to rural renewal and development. We are receiving positive feedback indicating this area of agricultural



SYLVIA AND GILBERT PHILIPPE (LEFT AND CENTRE) ARE SHAREHOLDERS IN PHILGO FARMS LTD, THEIR DAIRY FARM NEAR ST. CLAUDE, MANITOBA. THE PHILIPPES, HERE WITH CREDIT ADVISOR KIM PREUN, HOLD A MORTGAGE LOAN WITH FCC AND HAVE FINANCED ADDITIONAL QUOTA PURCHASE THROUGH FCC.

financing provides direct benefit to Canada's rural communities. This informal opinion sampling is reinforced by market surveys and the significant increase of our lending volume, which demonstrate more and more existing and new clients are willing to do business with FCC under our expanded mandate. Since our new purpose is to enhance rural Canada by providing our traditional and enhanced lending services, we are energized by the positive reception we are receiving from the agricultural sector.

While FCC is challenged to understand new farm-related businesses, diversifying our lending portfolio reduces exposure to a downturn in one particular sector of the industry. Moreover, our broader range of agricultural financing services has attracted many diversification proposals from younger farmers, who represent our best potential client base for the future.

ALLIANCES AND PARTNERSHIPS

Besides enabling FCC to finance a wider range of farm-related projects, the 1993 *Farm Credit Corporation Act* allows FCC to participate in joint initiatives with the provinces and other institutions. During 1994, FCC undertook a number of initiatives to reduce duplication of services, and provide a higher level of service to our clients than we could on our own. For instance, FCC is working with Agriculture and Agri-Food Canada on a pilot project called Business Planning for New Agri-Ventures. This project will assist farmers and agri-business operators with business planning to develop or establish non-primary and agricultural-related businesses. FCC will administer this program with the assistance of other agencies, the provinces, farm groups and the private sector. To help beef producers manage their risks, the Corporation is administering the Cattle Options Pilot Program for Agriculture and Agri-Food Canada. FCC and the Agriculture Financial Services

Corporation of Alberta are jointly delivering programs at six locations. We are also working with the federal Department of Fisheries and Oceans in aquaculture, a new lending area for FCC. In May 1995, Heartland Livestock Services and FCC jointly announced the Heartland Feeder Finance Program to provide financing for purchases of feeder cattle in Western Canada. As we approach the second millennium, traditional business relationships are being supplanted by a partnership approach that allows us to concentrate on our strengths, while complementing the strengths of others.

ENVIRONMENT POLICY

FCC's new environment policy, which took effect January 1, 1994, added the review of environmental factors as an integral part of the loan application process. The policy is intended to create an awareness among our clients of environmentally safe farming practices and protect our clients, and the Corporation, from potential liability. More stringent legislation at all levels of government mean land owners and lenders may be held jointly responsible for past and present environmental hazards. FCC's environment policy, and staff training regarding it, are proactive steps in keeping pace with the new requirements.

NET INCOME
($ MILLIONS)

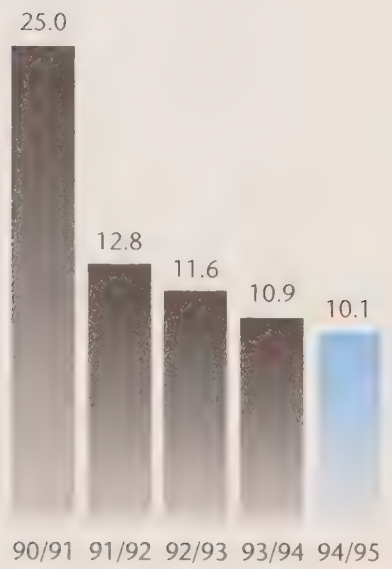


FINANCIAL REVIEW

Highlights

The fiscal year ended March 31, 1995 showed continuous improvements in net income, capital structure, and all key performance measures. Net income for 1994/95 of $42.7 million exceeded the budget of $42.5 million, and was higher than the $28.3 million reported in fiscal 1993/94. The debt-to-equity ratio, a key measure of the Corporation's long-term financial viability, improved from 10.9:1 at March 31, 1994 to 10.1:1 at March 31, 1995. FCC believes that these favourable results reflect an improved agricultural economy, opportunities from our expanded mandate and the ongoing enhancements employees have made in managing our business.

DEBT-TO-EQUITY
RATIO



Two primary measures of FCC's profitability which continued to show improvement are return on assets and return on equity. The return on asset ratio, net income as a percentage of average assets, improved from 0.77 per cent to 1.10 per cent in the current fiscal year. A focus on capital management and improved earnings is reflected by the return on equity ratio, net income as a percentage of average equity, which increased to 12.6 per cent from the 1993/94 ratio of 9.4 per cent.



FCC STAFF PARTICIPATE IN A VARIETY OF EVENTS TO BENEFIT CANADIAN FARMERS. FCC VICE-PRESIDENT JACQUES DORAN (CENTRE) WAS A JUDGE FOR LAST YEAR'S OUTSTANDING YOUNG FARMERS (OYF) COMPETITION ALONG WITH (LEFT) PAUL SAUVÉ, REGIONAL DIRECTOR OF QUÉBEC'S MINISTRY OF AGRICULTURE, FISHERIES AND FOOD; AND (RIGHT) VALÈRE LIEUTENANT, LAST YEAR'S OYF WINNER.

Net Interest Income and Margin

FCC's net interest income is defined as interest income earned on assets less non-accrual interest, interest expense on liabilities, and the provision for loan losses.

The following table details the components of net interest income:

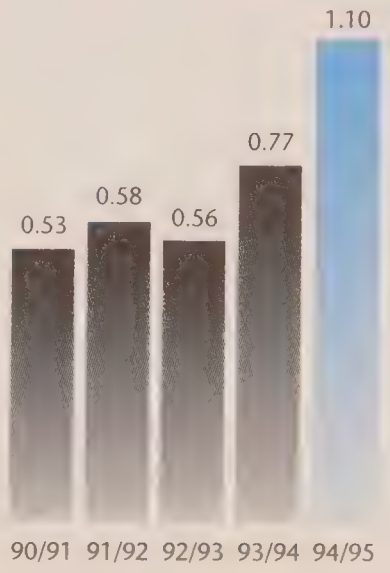
Net Interest Income

$ Millions	**1994/95**	1993/94
Interest Income		
Loans receivable	**326.5**	327.3
Non-accrual interest	**(0.9)**	(0.5)
Investments	**22.8**	10.1
	348.4	336.9
Interest Expense		
Loans payable	**226.8**	240.3
Short-term notes	**22.4**	8.7
	249.2	249.0
Provision for Loan Losses	**9.7**	9.6
Net Interest Income	**89.5**	78.3

Net interest income for 1994/95 was $89.5 million, up $11.2 million or 14 per cent from 1993/94. The increase over last year reflects growth in the average portfolio balance, and an increase in interest margins.

RETURN ON ASSETS (%)

(net income/average assets)
for the year ended March 31



FCC is continuing to benefit from the strengthened agricultural economy and the ongoing efforts to improve the credit quality of our loan portfolio. Non-accrual interest, which represents the reversal of interest income on loans classified as non-performing, totalled $0.9 million in 1994/95, well below the budget of $4.5 million and only marginally higher than the previous year.

Investment income totalled $22.8 million in 1994/95, up significantly from the $10.1 million reported in 1993/94. This increase was largely attributable to higher than budgeted short-term and long-term investment balances as a result of prefunding cashflow requirements during the year for asset/liability management purposes.

Total interest expense remained consistent with last year's level at $249.2 million for the fiscal year. This is a positive achievement given the rising interest rate environment in 1994/95 and growth in total loans payable.

FCC sets aside special provisions to cover the estimated cost of losses on impaired loans outstanding at the end of the year. The amount charged to income in 1994/95 totalled $9.7 million, comparable to the $9.6 million charged in 1993/94.

Other Income and Administrative Expenses

Other income at $6.9 million was significantly higher than the $2.9 million reported last year and the budget of $2.7 million. During the fiscal year, FCC finalized an agreement with its insurance carriers to receive an administration fee for services provided on a cost-recovery basis.

Administration expenses were $60.2 million for the 1994/95 fiscal year, up from the $59.0 million reported last year and at 97 per cent of the current year's budget. Certain initiatives, including continued work on newly implemented computer systems, have temporarily increased administrative expenses. The administrative coverage ratio, the relative measure of net income before non-interest expenses to administrative expenses, improved from 1.49:1 in 1993/94 to 1.74:1 in the current year.

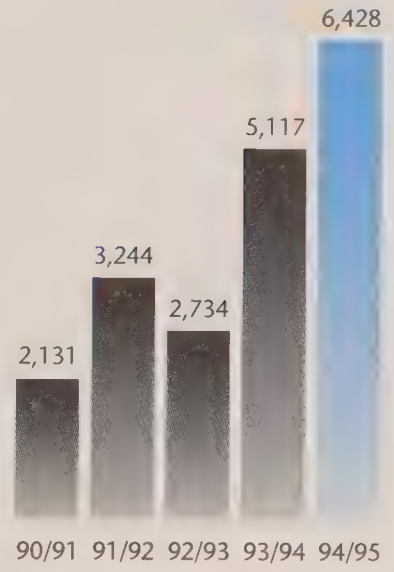
Portfolio Composition and Asset Quality

The following table summarizes FCC's loans receivable portfolio by province:

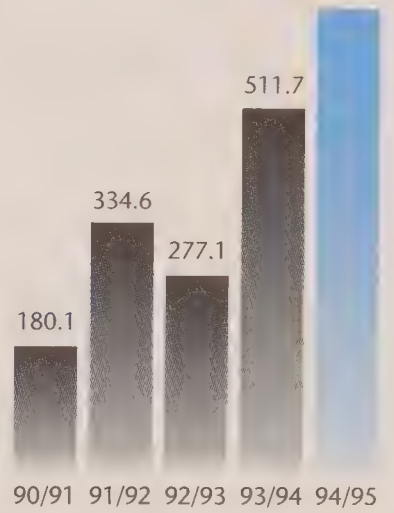
Loans Receivable Portfolio as at March 31, 1995 by Province

	1994/95		1993/94	
$ Millions	**Number**	**Amount**	Number	Amount
Alberta/British Columbia	**8,870**	**589.0**	9,202	545.0
Saskatchewan	**17,924**	**871.0**	17,360	864.1
Manitoba	**6,813**	**339.9**	6,432	316.5
Ontario	**13,824**	**1,092.2**	13,420	1,011.7
Québec	**6,452**	**462.4**	6,251	430.0
Atlantic Provinces	**2,877**	**215.3**	2,790	194.3
National	**56,760**	**3,569.8**	55,455	3,361.6
Accumulated interest not recognized on non-accrual loans		**34.1**		39.0
Loans Receivable		**3,535.7**		3,322.6
Allowance for loan losses		**125.9**		126.5
Loans Receivable, Net of Allowance for Loan Losses	**56,760**	**3,409.8**	55,455	3,196.1

TOTAL NUMBER OF LOANS APPROVED



NET AMOUNT OF LOANS APPROVED ($ MILLIONS)



Loans Receivable

Loans receivable increased to $3.5 billion during 1994/95, up from $3.3 billion in 1993/94 and in line with the budget. The number of loans in the portfolio has increased 2.4 per cent from 55,455 last year to 56,760. The overall composition of the portfolio continues to be weighted in favour of our traditional long-term mortgage products with amortization periods as long as 29 years. However, the newly introduced shorter term products are increasingly becoming a more significant part of the portfolio.

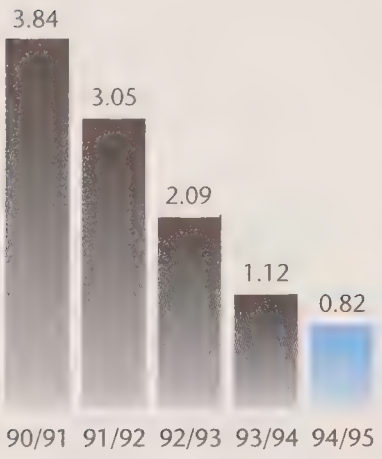
Lending Activity

Several positive factors contributed to the increased lending activity including a recovery in Canada's agricultural sector, continued progress with the Corporation's broader mandate, a strong marketing effort, and FCC's reputation for putting client service first. During the current year, 6,428 loans were approved totalling $631.9 million, up 23 per cent from the $511.7 million approved in 1993/94.

With the improved agricultural economy, more farmers are concentrating on expanding and diversifying their operations. Aided by the latest technology and a newly installed loan management system that makes it easier to introduce and

ARREARS AS A % OF PND

(Principal not due)



manage a broader range of products, FCC is proactively responding to our clients' needs. New products introduced in the past year include the Family Farm Loan – the first of its kind in Canada – to facilitate the transfer of the farm from one generation to another; flexible intermediate-term loan options like the Seven-Year Fixed product for purchases such as equipment, livestock or quota; and a One-Year Fixed loan product which complements the successful One-Year Convertible product.

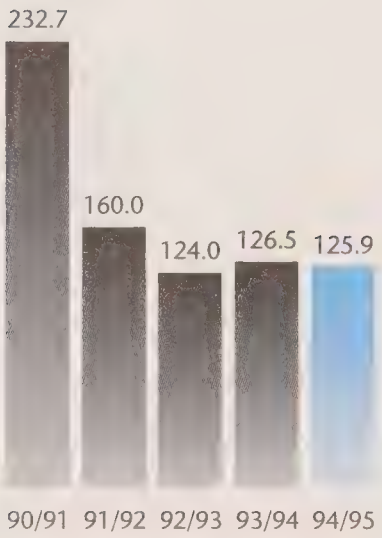
The proportion of clients who were offered extensions and did in fact choose to renew their business with FCC upon expiration of their current loan terms totalled 95.2 per cent. This improvement over the 89.0 per cent renewal rate last year is confirmation that our products are meeting clients' needs and our level of service is viewed favourably.

Non-Performing Loans

The quality of FCC's assets is measured by the level of default and credit risk associated with the loan portfolio.

ALLOWANCE FOR LOAN LOSSES

($ MILLIONS)



The following table identifies the level of loans in arrears by province. The arrears levels are expressed as a percentage of principal not due (PND) which is defined as total portfolio plus amounts held for future instalments less accrued interest and arrears. The percentage at March 31, 1995 was 0.82 on PND of $3,503.7 million compared to 1.12 per cent on PND of $3,276.5 million at March 31, 1994, and below the budget of 1.15 per cent. This measure has steadily declined over the past five years from 3.84 per cent in 1990/91.

Level of Arrears by Province

	1994/95			1993/94		
$ Millions	**Arrears**	**PND**	**% of PND**	Arrears	PND	% of PND
Alberta/British Columbia	**5.9**	**572.9**	**1.0**	6.2	527.8	1.2
Saskatchewan	**7.8**	**834.1**	**0.9**	12.1	819.4	1.5
Manitoba	**1.5**	**335.1**	**0.4**	1.9	309.6	0.6
Ontario	**9.1**	**1,087.2**	**0.8**	10.7	1,003.2	1.1
Québec	**1.0**	**462.7**	**0.2**	1.1	428.5	0.2
Atlantic Provinces	**3.6**	**211.7**	**1.7**	4.6	188.0	2.4
National	**28.9**	**3,503.7**	**0.8**	36.6	3,276.5	1.1

With improvement in asset quality, the allowance for loan losses as a percentage of loans receivable decreased from 3.8 per cent in 1993/94 to 3.6 per cent at March 31, 1995.

FCC has made it a point to be innovative and helpful in working with farmers who find themselves in financial difficulty. Field staff have received specialized training that equips them to analyze reasonable alternatives and recommend possible solutions.

Property Management

Real estate held by FCC decreased during the fiscal year from $221.5 million in 1993/94 to $196.6 million. Consistent with our mandate of returning land to farmers, property disposals were $37.6 million and $47.2 million in 1994/95 and 1993/94 respectively. Property acquisitions in the year were $12.7 million, down from $36.8 million the previous year. This again reflects the strengthened agricultural sector and quality of the loan portfolio.

Lease and Real Estate Income

$ Millions	**1994/95**	1993/94
Real Estate Income		
Lease and other revenue	**22.1**	17.2
Farm Debt Review Board Payments	**8.5**	14.3
	30.6	31.5
Real Estate Expenses		
Operating expenses	**4.0**	4.6
Interest expense	**18.0**	20.0
	22.0	24.6
Net Lease and Real Estate Income	**8.6**	6.9



ANNIE AND KLASS VANDERVEEN (LEFT AND CENTRE) HAVE EXPANDED AND IMPROVED THEIR DAIRY FARM NEAR PICTURE BUTTE ALBERTA WITH FCC LOANS. THE COUPLE MILK 100 COWS ON THE 240-ACRE FARM. CREDIT ADVISOR RON LYONS (RIGHT) VISITS THE VANDERVEENS, WHO RECENTLY RENOVATED AND ENLARGED THE BARN, AND PURCHASED ADDITIONAL QUOTA.

Lease and Real Estate Income

Net lease and real estate income at $8.6 million has increased from the $6.9 million reported last year. Despite a decline in FCC's property inventory from 1.2 to 1.1 million acres and the reduction in Farm Debt Review Board payments, better stewardship of the land and proceeds from disposal of real estate have combined to offset a declining portfolio.

Agri-Land

The Agri-Land Sales and Leasing division was established in April 1994 to separate land marketing and management from FCC's lending activities. With its central office in Regina, Saskatchewan, Agri-Land now manages approximately 90 per cent of the 1.1 million acres of land still owned by FCC.

Leases

The Agri-Land Investment Lease was introduced in April 1994. The lease, which provides farmers with longer term leasing options, went beyond some of the provisions of the *Saskatchewan Farm Security Act*. Consequently, all legal proceedings between FCC and the Saskatchewan government concerning the Act have ended.

Approximately 91 per cent of FCC's land holdings are leased back to former owners. Many of these former owners are taking advantage of the five-year investment lease product which offers an optional investment component designed to help build sufficient equity to repurchase all or part of the leased property. The product has been a tremendous success with equity contributions now totalling approximately $8.0 million to the end of March 1995.

Asset/Liability Management

Financial Risk Management

As a financial institution, FCC's performance is affected by its capacity to manage financial risks. As part of the normal course of business, FCC is exposed to market risks that include liquidity risk, foreign exchange risk and interest rate risk.

FCC proactively quantifies, measures and manages financial risk exposures as part of its asset/liability (A/L) management function. A number of analytical tools are used to manage financial risk, including duration analysis, net interest income (NII) and market value of portfolio equity (MVPE) simulations, and gap reporting. FCC manages its financial risk exposures within formal interest rate risk policy limits established by the Asset/Liability Management Committee (ALCO). ALCO also sets operational risk management guidelines and monitors performance. FCC's Treasury

Division develops risk management policies and is tactically responsible for the day-to-day functions of A/L management. These policies and guidelines are also approved by the Corporation's Board of Directors.

Liquidity Risk Management

Liquidity management includes cash management, short-term investment activities and funding diversification. FCC's liquidity management is designed to provide sufficient funds to meet customer borrowing needs and support business operations.

Cash inflows and outflows are forecasted and monitored on a daily basis. As of March 31, 1995, FCC held $365.8 million in assets for liquidity and A/L management purposes.

A primary measure of liquidity is the proportion of liquid assets, represented by cash and temporary investments, to total assets. The liquidity investment portfolio represents 6.6 per cent of total assets and consists of high grade government and chartered bank short-term investments which are available for immediate sale to meet day-to-day cash requirements. Liquidity is supported via diversified short-term funding sources including FCC's Commercial Paper Program, chartered bank lines of credit and government funding sources. At March 31, 1995, the Corporation had an authorized short-term borrowing capacity of $1.1 billion.

The Corporation's primary source of short-term funding is its domestic Commercial Paper Program which had $226.3 million par value outstanding at March 31, 1995. To diversify funding, the Corporation is presently establishing a $1 billion (U.S. dollars) Euro Medium-Term Note (EMTN) program that will be operational in the first half of fiscal 1995/96.

Foreign Exchange Risk Management

To mitigate foreign exchange risk exposures, the Corporation has a policy of fully hedging all foreign exchange exposures. Borrowings in foreign currencies are hedged via foreign exchange contracts or currency swaps at time of issuance.

Interest Rate Risk Management

Interest rate risk is the sensitivity of FCC's earnings and financial condition to adverse changes in interest rates. Interest rate risk results from exposures in the repricing or maturity of assets and liabilities in a given period and from embedded options related to our lending practices such as loan commitments and prepayment features.

To reduce interest rate risk, FCC manages the maturity structure of its assets and liabilities on a portfolio basis rather than a matching of individual assets with specific liabilities.

The Corporation measures interest rate risk exposures with an A/L modelling system that simulates changes in NII (Net Interest Income) and MVPE (Market Value of Portfolio Equity) for changes or various movements in interest rates. Given FCC's interest rate sensitivity position as at March 31, 1995 assuming an immediate and sustained two per cent rise in interest rates, NII would be lower by approximately $1.0 million over the next 12 months. This exposure is well within the 15 per cent NII variation limit approved by the Department of Finance and ALCO.

Market value of both assets and liabilities is calculated to determine the market value of portfolio equity. As of March 31, 1995, the fair or market value of the mortgage assets was estimated at $3,442.4 million. This value was determined by discounting expected cash flows at equivalent current loan rates plus accrued interest, but before allowance for loan losses.

Gap analysis measures the difference between the amount of assets and liabilities repricing and represents a proxy for interest rate risk. "Gap" positions may positively or negatively impact interest margins depending on the nature or "sensitivity" of the gap and the future direction of interest rates. For example, if more liabilities than assets reprice in a period, a "liability sensitive" gap exists. As a result, if interest rates rise, net interest income is negatively impacted since more liabilities reprice sooner at higher interest rates. Conversely with an "asset sensitive" gap (more assets than liabilities repricing in a given period) net interest income is favourably impacted in a rising interest rate environment.

The following table highlights FCC's interest rate sensitivity position as at March 31, 1995.

Interest Rate Sensitivity Gap Position

$ Millions	Within 6 Months	6-12 Months	1-5 Years	Over 5 Years	Non-Interest Sensitive	Total
Assets	580	499	2,115	752	40	3,986
Liabilities and Equity	(690)	(268)	(1,886)	(666)	(476)	(3,986)
Off-Balance Sheet*	(138)	8	130	–	–	–
Total Interest Rate Sensitivity Gap	(248)	239	359	86	(436)	–
Cumulative Interest Rate Sensitivity Gap	(248)	(9)	350	436	–	–

* interest rate swaps only

Off-Balance Sheet Activities

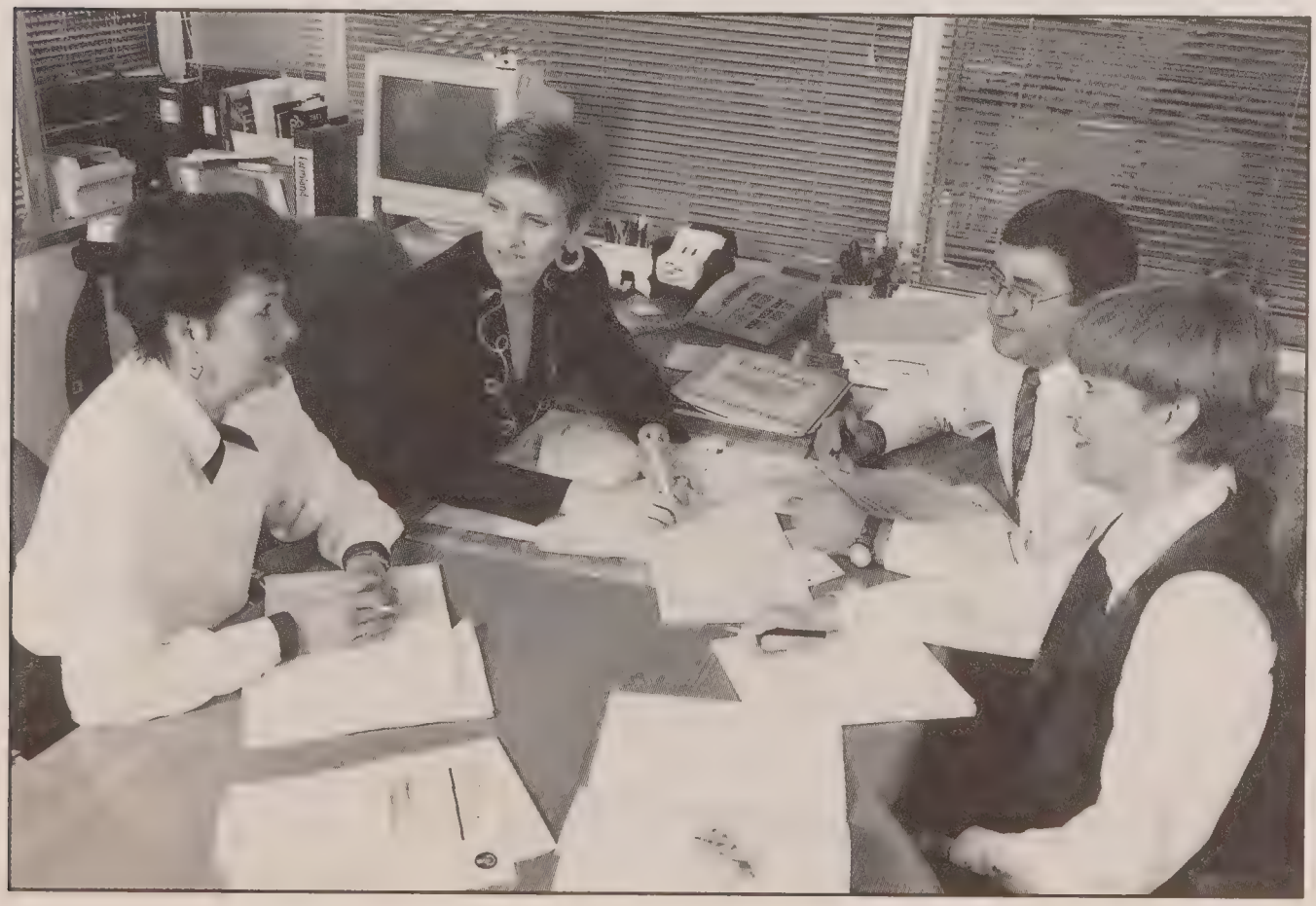
FCC utilizes a variety of off-balance sheet financial derivative instruments in the course of its A/L management.

Derivatives

Derivatives are contracts whose values are derived from an underlying asset or underlying referenced rate or index. Financial derivatives such as swaps, options, futures and forward contracts are used for A/L management purposes to manage interest rate and foreign currency exposures arising from FCC's on-balance sheet position. As at March 31, 1995, the total notional principal of interest rate and currency swap contracts amounted to $553.1 million compared to $526.7 million last year.

Common hedging activities include the use of interest rate swaps to hedge interest rate risk positions and alter FCC's interest rate profile, and the use of interest rate options to hedge prepayment and rate guarantees to customers. Currency swaps and contracts are used to fully hedge borrowing in non-Canadian dollar currencies. Forward Rate Agreements are used to hedge the cost of short-term borrowing and to augment the return on short-term investments without increasing FCC's asset/liability risk profile.

Policies for financial derivative usage have been approved by ALCO and the Board of Directors. Asset/Liability management activities and risk exposures are reported monthly to ALCO and quarterly to the Board of Directors.



LEFT TO RIGHT: FCC STAFF EDNA MACLEAN (ONTARIO), SANDRA WOODS (CORPORATE OFFICE), ARMAND LECLERC (MANITOBA), AND DIANE GAGNON (QUÉBEC). FCC STAFF FROM ACROSS CANADA PARTICIPATE ON A WIDE RANGE OF COMMITTEES.

Derivative Contracts

The table below provides the notional principal amounts of FCC's derivative portfolio. The notional amounts associated with derivatives are not recorded as assets or liabilities on the balance sheet. Derivatives are off-balance sheet transactions where the notional amounts are used to determine cash flows to be exchanged with a counterparty.

Credit Risk of Derivatives

Credit risk associated with off-balance sheet activities pertains to the risk that a loss could be incurred if a counterparty defaulted on its contractual obligations. FCC's credit risk exposure on derivatives is measured as an estimate of potential exposure over the remaining life of the contract. Potential exposure represents an estimate of the potential future exposure of the contract as a result of market changes. Potential exposure is primarily a function of the term to maturity and the potential future changes in market prices.

The amount exposed to credit risk as at March 31, 1995 is represented by the estimated cost of replacement of all contracts in which FCC has an unrealized gain (see following table). The current replacement cost does not reflect the potential credit exposure resulting from possible future changes in market prices. FCC minimizes credit risk exposure by entering into derivative contracts with high credit worthy counterparties.

Notional Principal Amounts and Current Replacement Cost of Derivative Instrument Portfolio

	Notional Amounts Maturing in:			
$ Millions	Under 1 Year	1-5 Years	Total Notional Amount	Current Replacement Cost
Interest Rate Instruments				
Forward rate agreements	212.7	0.0	212.7	0.1
Interest rate swap contracts	8.0	130.0	138.0	(5.8)
Purchased options	10.0	0.0	10.0	0.1
Foreign Exchange Instruments				
Currency swap contracts	0.0	415.1	415.1	1.8
Total	**230.7**	**545.1**	**775.8**	**(3.8)**



CREDIT ADVISOR MARY NELSON (RIGHT) CHATS WITH MERVIN REINHART AT THE REINHART COW-CALF OPERATION NEAR MILDMAY, ONTARIO. MERVIN AND HIS WIFE HARRIET SHARE THE WORKLOAD, WHILE HOLDING OTHER JOBS. MERVIN ALSO WORKS FOR A LOCAL EQUIPMENT DEALER, AND HARRIET IS A LICENSED ELECTRICIAN.

1995/96 Funding Activity and Borrowing Plans

Funding for FCC's business is conducted through the capital markets as well as direct borrowings from the Government of Canada through the Consolidated Revenue Fund. Our funding policy is approved by the Government of Canada.

FCC has two well-established programs to source funds from the capital markets: a short-term Commercial Paper Program and a domestic Medium-Term Note (MTN) program. In 1994/95, FCC borrowed a total of $641.7 million par value in long-term funds (down from $838.0 million in 1993/94). Of this amount, 53 per cent or $339.7 million was borrowed through the MTN program. Long-term principal payments during the year were $453.3 million and year-over-year long-term indebtedness increased in par value by $188.4 million.

In 1995/96, FCC will continue to expand our borrowing facilities by implementing a Euro-MTN program. FCC's funding programs will provide diverse and cost-effective financing for our portfolio of mortgages and property holdings. Based on anticipated new lending activity and depending on market conditions, aggregate new borrowings in 1995/96 are estimated to be $800 million.

MANAGEMENT'S REPORT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for loan losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which includes a majority of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis, and the auditors have full and free access to the Audit Committee.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.

C. Gerald Penney
President and
Chief Executive Officer

Max Pierce
Executive Vice-President and
Chief Economist

Regina, Canada
May 25, 1995

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

I have audited the balance sheet of Farm Credit Corporation as at March 31, 1995 and the statements of operations and deficit and changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management.

My responsibility is to express an audit opinion on these financial statements based on my audit. I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1995 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Corporation Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 25, 1995

Farm Credit Corporation

BALANCE SHEET

as at March 31, 1995

	1995	1994
		(000's)
ASSETS		
Cash and temporary investments (Note 3)	**$ 262,868**	$ 269,076
Accounts receivable	**6,278**	14,736
Investments (Note 4)	**102,884**	64,396
Loans receivable, net of allowance for loan losses of $125,900 (1994 - $126,500) (Notes 5 and 6)	**3,409,837**	3,196,129
Real estate acquired in settlement of loans (Note 7)	**196,651**	221,568
Office equipment and leasehold improvements	**7,747**	7,708
	$3,986,265	$3,773,613
LIABILITIES		
Accounts payable and accrued liabilities	**$ 17,371**	$ 14,767
Short-term notes (Note 8)	**503,735**	514,930
Payments held for real estate (Note 9)	**12,019**	14,906
Provision for employee termination benefits	**4,016**	3,949
Deferred loan fees	**5,082**	8,348
Loans payable (Note 10)	**3,084,455**	2,899,836
	3,626,678	3,456,736
EQUITY		
Contributed capital (Note 1)	**1,118,333**	1,118,333
Deficit	**(758,746)**	(801,456)
	359,587	316,877
	$3,986,265	$3,773,613

Approved:

The accompanying notes are an integral part of the financial statements.

C. Gerald Penney
President and Chief Executive Officer

Donald W. Black
Chair

Farm Credit Corporation

STATEMENT OF OPERATIONS AND DEFICIT

for the year ended March 31, 1995

	1995	1994
	(000's)	
LOAN AND INVESTMENT INCOME		
Interest income		
Loans receivable	**$ 325,617**	$ 326,751
Investment income	**22,767**	10,195
	348,384	336,946
Interest expense	**249,159**	249,030
Net loan and investment income	**99,225**	87,916
Provision for loan losses (Note 6)	**9,739**	9,608
Net loan and investment income after provision for loan losses	**89,486**	78,308
LEASE AND REAL ESTATE INCOME		
Lease and other revenue	**30,620**	31,469
Operating expenses	**4,075**	4,548
Interest expense	**17,970**	20,019
Net lease and real estate income	**8,575**	6,902
Other income	**6,936**	2,862
NET INCOME BEFORE NON-INTEREST EXPENSES	**104,997**	88,072
Administrative expenses	**60,234**	59,040
Income taxes – large corporations tax (Note 12)	**2,053**	721
NET INCOME FOR THE YEAR	**42,710**	28,311
Deficit at beginning of the year	**(801,456)**	(829,767)
DEFICIT AT END OF THE YEAR	**$(758,746)**	$(801,456)

The accompanying notes are an integral part of the financial statements.

Farm Credit Corporation

STATEMENT OF CHANGES IN CASH POSITION

for the year ended March 31, 1995

	1995	1994
	(000's)	
OPERATING ACTIVITIES		
Net income for the year	**$ 42,710**	$ 28,311
Items not involving cash		
Provision for loan losses	**9,739**	9,608
Change in accrued interest receivable	**6,469**	20,041
Change in accrued interest payable	**5,083**	(19,426)
Other	**(852)**	529
Cash provided by operating activities	**63,149**	39,063
INVESTING ACTIVITIES		
Long-term investments	**(38,488)**	(64,396)
Loans receivable disbursed	**(632,923)**	(501,978)
Loans receivable repaid	**395,599**	418,267
Proceeds from disposal of real estate	**44,239**	53,044
Other	**(3,893)**	8,267
Cash used in investing activities	**(235,466)**	(86,796)
FINANCING ACTIVITIES		
Loans from Canada	**302,000**	643,103
Loans repaid to Canada	**(354,004)**	(759,976)
Loans from capital markets	**328,567**	199,549
Loans repaid to capital markets	**(99,259)**	(317,342)
Change in short-term notes	**(11,195)**	370,359
Cash provided by financing activities	**166,109**	135,693
(DECREASE) INCREASE IN CASH AND TEMPORARY INVESTMENTS	**(6,208)**	87,960
Cash and temporary investments at beginning of the year	**269,076**	181,116
CASH AND TEMPORARY INVESTMENTS AT END OF THE YEAR	**$ 262,868**	$ 269,076

The accompanying notes are an integral part of the financial statements.

1. The Corporation

(a) Authority and objectives

Farm Credit Corporation ("the Corporation") was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

On April 2, 1993 the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the Farm Credit Corporation with its head office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role is to provide mortgage credit and complementary financial services to Canadian farmers and agri-businesses, and to deliver specific programs of the Government of Canada on a cost-recovery basis.

(b) Contributed capital

Contributed capital of the Corporation constitutes capital payments received from the government. The statutory limit is $1,125 million (1994 – $1,125 million).

(c) Limits on borrowing

The *Farm Credit Corporation Act* restricts the total of direct and contingent liabilities to 12 times the equity of the Corporation. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 1995, the Corporation's total liabilities were 10.1 times the equity of $359.6 million (1994 – 10.9 times the equity of $316.9 million).

2. Significant accounting policies

(a) Revenue recognition

Interest income is recorded on the accrual basis until such time as management determines that a loan should be classified as non-accrual. A loan is classified as non-accrual when:

1) principal or interest is six months past due, unless the loan is well secured, or
2) circumstances indicate doubt as to the ultimate collectibility of principal or interest.

When a loan is initially classified as non-accrual, uncollected interest recognized in the year is reversed against interest income and, where necessary, uncollected interest recognized in previous years is provided for in the allowance for loan losses.

Interest payments on non-accrual loans are recorded as interest income when received where it has been determined that the loan does not require a specific allowance for loan losses; otherwise, they are credited to principal.

Non-accrual loans return to accrual when arrears are eliminated and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Lease and other revenues from real estate are recorded when earned. Gains and losses arising from the disposal of real estate are included as a component of lease and other revenues.

Loan fees received as compensation for activities which are integral to a specific lending arrangement are deferred and recognized as interest income over the estimated remaining term of the loan. Other loan fees are recorded as other income on the same basis as the related costs.

(b) Allowance for loan losses

The allowance for loan losses represents management's best estimate of probable losses on the loans outstanding at the end of the year in light of current conditions. It has a specific and a general component.

The specific component is determined based on a loan-by-loan review of undersecured loans. Specific provisions are established for individual loans, where circumstances indicate doubt as to the ultimate collectibility of principal or interest, to value these loans at the lower of their recorded investment or the estimated net realizable value of the underlying security for the loans.

The general component, which is prudential in nature, is established to provide for losses on loans which cannot yet be identified on a loan-by-loan basis.

As a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting certain agricultural regions or sectors. Accordingly, management has also considered the impact of specific factors, such as land value trends, federal and provincial government programs, international trade negotiations, future commodity prices and climatic conditions, in establishing the general component of the allowance. However, future agricultural and economic conditions are not predictable with certainty and, therefore, actual loan losses may vary from management's estimate.

Actual loan losses and write-downs of real estate on acquisition are charged to the allowance, while recoveries are credited to the allowance. Adjustments of the allowance to the level regarded by management as being appropriate are applied to operations.

(c) Real estate acquired in settlement of loans

Real estate, whether held for the production of income through leasing or held for sale, is initially recorded at the lower of the recorded investment in the foreclosed loan and the fair value of the underlying security at the time of acquisition. The fair value of the security is the amount which could be realized in an arm's length disposition considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Subsequent to acquisition, real estate leased for the production of income is carried at the fair value recorded on acquisition and is not written down for declines in the estimated fair value unless they are significant and permanent.

Real estate held for sale is reduced by write-downs to the carrying value for any declines in the estimated fair value subsequent to acquisition.

(d) Farm Debt Review process

Amounts received from the government on behalf of farmers for concessions granted by the Corporation under the Farm Debt Review process are applied as if they had been received directly from the farmers.

(e) Office equipment and leasehold improvements

Office equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of office equipment and leasehold improvements according to the following methods and rates:

	Methods	Rates
Equipment and furniture	Declining balance	20%
Computer equipment and software	Straight-line	20%
Leasehold improvements	Straight-line	Lease term plus the first renewal option.

(f) Translation of foreign currencies

Loans and related interest payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are amortized on a straight-line basis and are charged to interest expense over the lives of the obligations.

(g) Financial instruments

In order to reduce interest rate risk and funding costs, the Corporation uses various types of off-balance sheet derivative financial instruments such as forward rate agreements, currency and interest rate swaps, options, interest rate caps and captions. These instruments are used solely for hedging, not speculative, purposes. The cost of these instruments is amortized on a straight-line basis over the lives of the underlying instruments and reported as interest expense. Gains or losses from transactions are recognized as income on the same basis as the hedged item.

(h) Securities

Securities comprise the balance sheet categories temporary investments and investments. Interest revenue, gains and losses on disposal, and write-downs to market value are reported in investment income.

Temporary investments are acquired primarily for the purposes of liquidity and are intended to be held for less than one year. Where market value has declined significantly, temporary investments are written-down to market value.

Investments are acquired primarily for the purposes of asset/liability management and are intended to be held to maturity. Investments are carried at cost adjusted for amortization of premiums or discounts over the term to maturity.

(i) Pension plan

Employees participate in the Public Service Superannuation plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to matching the employees' contributions for current service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

(j) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(k) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred income tax benefits which have not been recorded and will only be recognized when there is virtual certainty of realization.

3. Cash and temporary investments

	Stated interest rate (%)	**1995**	1994
		(000's)	
Cash and temporary investments	6.65 – 8.55	**$260,482**	$268,493
Accrued interest		**2,386**	583
		$262,868	$269,076

At March 31, 1995, the market value of cash and temporary investments, including accrued interest, was $262.6 million (1994 - $267.8 million).

4. Investments

	Stated interest rate (%)	**1995**	1994
		(000's)	
Investments maturing within:			
– 1 year	8.25 – 10.25	**$ 15,221**	$ –
– 1–5 years	6.50 – 10.75	**83,433**	64,081
– over 5 years	7.50	**3,235**	–
		101,889	64,081
Accrued interest		**995**	315
		$102,884	$64,396

At March 31, 1995, the market value of investments, including accrued interest, was $99.0 million (1994 – $62.5 million).

At March 31, 1995, the weighted average yield to maturity of investments was 7.00%.

5. Loans receivable

	Stated interest rate (%)	**1995**	1994
		(000's)	
Loans secured by mortgages	5.00 – 15.25	**$3,426,934**	$3,198,474
Loans secured by notes	6.88 – 14.63	**7,216**	10,170
Loans receivable from real estate sales, secured by agreements for sale or mortgages	5.00 – 14.63	**26,286**	29,141
		3,460,436	3,237,785
Accrued interest – current		**65,419**	69,913
– arrears		**9,882**	14,931
		3,535,737	3,322,629
Less: Allowance for loan losses		**125,900**	126,500
		$3,409,837	$3,196,129

At March 31, 1995, the weighted average effective rate of loans receivable was 9.60%.

At March 31, 1995, the Corporation had 2,376 loans representing $218 million of loans receivable classified as non-accrual (1994 – 2,613 representing $250 million). During the year, interest not recognized on non-accrual loans amounted to $0.9 million (1994 – $0.5 million). The accumulated interest not recognized on non-accrual loans outstanding at March 31, 1995 amounted to $34.1 million (1994 – $39.0 million).

6. Allowance for loan losses

	1995	1994
	(000's)	
Balance at beginning of the year	**$126,500**	$124,000
Write-offs, net of recoveries	**(4,696)**	(14,764)
Provision for loan losses	**9,739**	9,608
Allowance (adjustment) on portfolio acquisition	**(5,643)**	7,656
Balance at end of the year	**$125,900**	$126,500
Specific allowance	**$ 3,800**	$ 11,500
General allowance	**122,100**	115,000
Balance at end of the year	**$125,900**	$126,500

7. Real estate acquired in settlement of loans

	1995	1994
	(000's)	
Balance at beginning of the year	**$221,568**	$231,944
Acquisitions	**12,668**	36,841
Disposals	**(37,585)**	(47,217)
Balance at end of the year	**$196,651**	$221,568
Real estate under long-term lease, lease maturities by fiscal year:		
1995	**$ –**	$119,647
1996	**65,878**	70,902
1997	**983**	–
2000	**110,125**	–
	176,986	190,549
Real estate held for sale	**19,665**	31,019
	$196,651	$221,568

Real estate represents farm property acquired in the process of administering loans receivable.

Real estate under long-term lease may be subject to renewal at the expiry of the original lease term. Leases reprice annually.

Future expected lease receipts, using current lease rates, receivable within:

	(000's)
– 1 year	**$ 12,368**
– 1–5 years	**26,614**
	$ 38,982

8. Short-term notes

	Stated interest rate (%)	**1995**	1994
		(000's)	
Short-term notes payable within one year	6.27 - 8.23	**$495,794**	$512,373
Accrued interest		**7,941**	2,557
		$503,735	$514,930

At March 31, 1995, the market value of short-term notes, including accrued interest, was $501.9 million (1994 – $512.8 million).

9. Payments held for real estate

	1995	1994
	(000's)	
Agri-Land Investment Fund	**$ 7,980**	$ 9,584
Downpayments on real estate sales	**4,039**	5,322
	$12,019	$14,906

The Corporation may, through equity-building lease programs, lease real estate acquired in settlement of loans back to the former owner ("the lessee"). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Corporation. At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

10. Loans payable

	Stated interest rate (%)	**1995**	1994
			(000's)
Loans from Canada, secured by notes	5.24 – 11.02	**$2,251,114**	$2,303,118
Loans from capital markets, secured by notes payable in:			
U.S. dollars ($200,000,000 at 7.50% – 7.75%)	9.00 – 9.12	**274,950**	274,740
Canadian dollars	4.25 – 9.00	**491,606**	260,277
		3,017,670	2,838,135
Accrued interest		**66,785**	61,701
		$3,084,455	$2,899,836

At March 31, 1995, the weighted average yield to maturity of loans payable was 8.12%.

The annual interest rates and yield to maturity disclosed above are net of currency swaps (see Note 11), which are used to convert borrowings to Canadian dollar obligations.

Amounts due by fiscal year:

1995	**$ –**	$ 392,636
1996	**463,941**	325,161
1997	**536,851**	478,830
1998	**613,996**	537,329
1999	**470,425**	397,007
2000	**262,749**	201,690
2001 and thereafter	**669,708**	505,482
	3,017,670	2,838,135
Accrued interest	**66,785**	61,701
	$3,084,455	$2,899,836

11. Financial instruments with off-balance sheet risk

In order to manage exposure to fluctuations in interest rates and foreign exchange, the Corporation uses hedges and derivative financial instruments with off-balance sheet risk. Currency and interest rate swaps are used to reduce foreign currency and cash flow risks on foreign dollar or floating rate borrowing (see Note 10).

The contractual or notional Canadian dollar principal amounts of financial instruments outstanding at March 31, 1995, were as follows:

	1995	1994
		(000's)
Currency swaps	**$415,110**	$388,740
Interest rate swaps	**138,000**	138,000
Forward rate agreements	**212,661**	168,433
Interest rate cap contracts	**10,000**	–
	$775,771	$695,173

12. Income taxes

(a) Timing differences of approximately $216 million are available to the Corporation as at March 31, 1995. These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the provision for loan losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $521 million and expires on the dates indicated:

	(000's)
March 31, 1997	$108,000
1999	270,000
2001	143,000
	$521,000

During the current year the Corporation will incur no income tax expense, other than the large corporations tax ("LCT"), due to the utilization of $197 million in loss carry-forwards.

(b) Income taxes payable by the Corporation relate to the LCT, which may be offset against any current or future surtaxes payable. The Corporation has no surtax currently payable.

13. Commitments to borrowers

As at March 31, 1995, loans to farmers and agri-businesses approved but not disbursed amounted to $88 million (1994 – $89 million). These loans were approved at interest rates from 8.38% to 11.75%. It is expected that the majority of these loans will be disbursed by September 30, 1995.

14. Operating leases

Future minimum payments by fiscal year on operating leases for premises, with initial non-cancellable lease terms in excess of one year, are as follows:

	(000's)
1996	$ 4,216
1997	4,682
1998	4,077
1999	3,674
2000	3,332
2001 and thereafter	4,933
	$24,914

These leases generally provide for payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

15. Government programs

Farm Debt Review process

During the year, the Minister of Agriculture and Agri-Food was authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the *Farm Debt Review Act*. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments.

Since the inception of the Farm Debt Review process, the Corporation has offered $279 million in concessions and billed $268 million to the government, of which $21 million was billed in the current year. The committed difference of $11 million will be due and received over the next four years as farmers meet their commitments and thereby realize the benefits of the concessions.

Government funding for new concessions under the *Farm Debt Review Act* ceased effective March 31, 1994.

Western Grain Transportation Act

The Corporation will receive payments from the elimination of the *Western Grain Transportation Act* (WGTA) subsidy, announced in the February 27, 1995 federal budget. The entire WGTA payment associated to a particular property will be transferred to the buyer who purchases the land in 1995 at the price established by the Corporation. Former owner tenants as at the date of the federal budget will receive a pro-rated benefit of the WGTA payment applicable to their property. Disbursements to purchasers and tenants will be made upon receipt of the WGTA payment by the Corporation.

16. Subsequent event

On May 25, 1995, the Board of Directors declared a dividend in the amount of $4.0 million payable September 30, 1995, to the Receiver General for Canada.

17. Comparative figures

Certain 1994 comparative figures have been reclassified to reflect the presentation adopted in 1995.

Objective 1: To ensure the Corporation's ongoing financial viability.

Principal goals include developing and implementing a risk management system that accommodates non-conventional lending and security, achieving an interest spread target of 1.75 per cent in each of the five years, completing a review of the Corporation's environment policy, exploring possible new funding instruments and new sources of capital, reaching revenue-generating assets of $5 billion, and working toward an appropriate capital structure.

Objective 2: To develop an effective human resources strategy designed to provide employees with the training and support needed to achieve Corporate objectives.

A human resources information system will provide information required to help develop a new organizational structure for the efficient and effective delivery of FCC's products and services. A Core Competency Model will identify the attributes required to meet the Corporation's business objectives, and training will be provided to meet those business needs. Policies and systems will be implemented to ensure that all staff have access to the information needed to participate in decision-making and meet corporate goals. We will develop an innovative recognition and reward system to acknowledge employee contributions to corporate goals.

Objective 3: To develop and implement marketing strategies to achieve a $5 billion portfolio of revenue-generating assets by the end of the planning period, and to achieve the targeted return on equity in each fiscal year.

FCC's corporate marketing plan will provide direction and coordination to FCC's national marketing efforts. Increasing awareness of FCC as the agricultural community's lender of choice, selecting new product ideas for development, and ensuring new products meet customer needs are part of FCC's marketing strategy. We will develop a marketing and sales training program to assist employees in the transition to a marketing culture. A comprehensive system for gathering competitive information will assist strategic planning. To further support value-added activities and optimize resources, we will introduce Activity-Based Management. FCC will continue to explore possible alliances with provincial governments and other agencies.

Objective 4: To leverage the use of technology to improve FCC's efficiency and effectiveness.

We will develop and communicate a corporate technology plan. The loan management system will be refined to facilitate further improvements in customer service and to continue the re-engineering of the loan management process. We will manage the human resources impact in areas affected by this re-engineering through job re-design, new assignments, and systems training. Training for all corporate software will be provided in the most effective way, and a strategy will be developed to ensure that all users have access to a help desk. We will promote a process to reduce paper documentation through the use of technology.

Objective 5: To be a client-driven corporation with precise service standards that guarantee our clients' expectations are met or exceeded.

We will gather internal and external feedback annually in order to ensure we are delivering the best possible service to clients. Standards and employee training will be adjusted as required. National service standards will be linked to the Corporation's other key result areas. The appropriate levels of accountability and performance measurement will be assigned.

FCC LOCATIONS

REGIONAL OFFICES	DISTRICT OFFICES	FIELD OFFICES
WESTERN REGION Exchange Tower Suite 1550 10250-101st Street Edmonton, Alberta T5J 3P4 (403) 495-4488 *Yukon Territory is served through the Edmonton Office*	Grande Prairie, Kelowna, Lacombe, Lethbridge, Vegreville, Westlock	Abbotsford, Barrhead, Brooks, Calgary, Camrose, Dawson Creek, Drumheller, Edmonton, Fairview, Falher, Grimshaw, Hanna, Medicine Hat, Olds, Stettler, St. Paul, Vermilion, Wainwright, Wetaskiwin
Suite 900 1801 Hamilton Street Regina, Saskatchewan S4P 4L5 (306) 780-5610	North Battleford, Regina, Saskatoon, Swift Current, Yorkton	Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, Prince Albert, Rosetown, Tisdale, Weyburn, Wynyard
400-5 Donald Street Winnipeg, Manitoba R3L 2T4 (204) 983-4039	Brandon, Portage la Prairie	Arborg, Carman, Dauphin, Killarney, Morden, Morris, Neepawa, Steinbach, Stonewall, Swan River, Virden
Unit 201 450 Speedvale Ave. West Guelph, Ontario N1H 7G7 (519) 821-1330	Chatham, Guelph, Lindsay, Nepean, Walkerton, Woodstock	Barrie, Campbellford, Casselman, Essex, Goderich, Kingston, Lambeth, Listowel, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Wyoming
Édifice Champlain Suite 2000 2700 Laurier Blvd., Box 3600 Sainte-Foy, Québec G1V 4C7 (418) 648-3993	Sainte-Foy, Saint-Hyacinthe, Sherbrooke	Alma, Gatineau, Granby, Joliette, Rimouski, Saint-Georges de Beauce, Saint-Jean, Saint-Jérôme, Trois-Rivières, Valleyfield, Victoriaville
Suite 230 1133 St. George Blvd. Moncton, N.B. E1E 4E1 (506) 851-6595	Charlottetown, Moncton	Grand Falls, Kentville, St. John's, Summerside, Sussex, Truro, Woodstock
1800 Hamilton Street P.O. Box 4320 Regina, Saskatchewan S4P 4L3 (306) 780-8100		1801 Hamilton Street, Suite 900 Regina, Saskatchewan S4P 4L5 (306) 780-8411 1-800-910-LAND (5263): in Manitoba, Alberta and Saskatchewan only

La version française de ce rapport est à votre disposition sur demande.



Design & Production: **BROWN COMMUNICATIONS GROUP, Regina, Saskatchewan and Winnipeg, Manitoba**

French Translation: **VIOLETTE TALBOT, Gatineau, Québec**

Electronic Pre-press: **TRUECOLOR GRAPHICS LTD., Regina and Saskatoon, Saskatchewan**

Printing: **MERIT PRINTING LIMITED, Regina, Saskatchewan**

FCC SCA

Farm Credit Corporation Société du crédit agricole

Canada

CA1
DB41
-A55

Government
Publications

Farm Credit Corporation



LIBRARY
JUL 3 1996
University of Toronto

Annual Report 1995-1996

CONTENTS

Chair's Message	2
Financial Highlights	3
President's Message	4
Objectives Drive Performance	6
Management Discussion and Analysis	10
Management Report	24
Auditor's Report	25
Financial Statements	26
FCC's Products and Services	38
Corporate Objectives 1996-2001	40

FCC'S VISION

To be Canada's first choice for agricultural finance.

FCC'S PURPOSE

FCC strives to foster growth in agriculture by providing financial services and innovative programs to primary producers, agri-businesses and farming communities.

CORPORATE PROFILE

Farm Credit Corporation (FCC) is a Crown corporation which reports to Parliament through the Minister of Agriculture and Agri-Food. FCC serves two roles: primarily to provide financial services to Canadian farmers and, secondly, to assist in delivering federal government programs that meet the unique needs of agriculture.

As Canada's largest agricultural term lender, FCC provides a wide range of flexible and innovative financing solutions to Canadian agricultural communities. The Corporation actively supports farmer-controlled diversification initiatives and value-added agricultural operations beyond the farm gate. FCC also delivers joint programs and services with government agencies and other lenders.

FCC has a loan portfolio of some 60,000 accounts, valued at $4.1 billion. More than 770 employees serve clients from over 100 offices across Canada. FCC's Corporate Office is located in Regina, Saskatchewan.

May 29, 1996

The Honourable
Ralph E. Goodale, P.C., M.P.
Minister of Agriculture and Agri-Food
9th Floor, Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario
K1A 0C5

The Honourable
Marcel Massé, P.C., M.P.
President of the Treasury Board
L'Esplanade Laurier
9th Floor, East Tower
140 O'Connor Street
Ottawa, Ontario
K1A 0R5

Dear Ministers:

It is with pleasure that the Board of Directors of Farm Credit Corporation provides you with the Corporation's Annual Report for the fiscal year ended March 31, 1996. The report includes the Corporation's financial statements and the Report of the Auditor thereon, in accordance with the *Financial Administration Act.*

The commitment and effort of the FCC team has resulted in the Corporation again meeting virtually all the objectives set out in the 1995-1996 Corporate Plan.

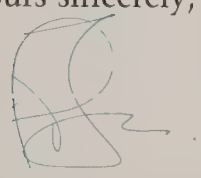
FCC increased its lending to Canada's agricultural industry by 63 per cent over last year's level to $1.0 billion. The Corporation's loan portfolio grew to $4.1 billion, an increment of 15 per cent over last year, while the level of arrears remained relatively stable, with an increase of only one per cent.

The Corporation's growth continues to be managed within its own resources, with growth in capital generated by earnings. FCC's capital structure improved for the sixth consecutive year with a debt-to-equity ratio of 9.4:1.

The Board of Directors, the management and staff are pleased to report that FCC recorded a net income of $40.4 million for 1995/96, and that a $2.7 million dividend was declared on May 29, 1996, payable on September 30, 1996.

This is the second consecutive year in which FCC has declared a dividend. We are also pleased to confirm that, in accordance with last year's commitment, a dividend of $4 million was paid to the Government of Canada on September 30, 1995.

Yours sincerely,



Donald W. Black
Chair

CHAIR'S MESSAGE

Board of Directors

Donald W. Black,
Chair

C. Gerald Penney,
President and CEO

Rosemary Davis,
Ontario

Rashpal (Paul) Dhillon,
British Columbia

Warren Ellis,
Prince Edward Island

Eleanor Hart,
Ontario

Lois Hole,
Alberta

Marie-Andrée Mallette,
Québec

Joan Meyer,
Saskatchewan

Peter Rampton,
Manitoba

Germain Simard,
Québec

Farm Credit Corporation is not immune to the winds of change sweeping through business and society at large. The financial services industry and the agri-business communities FCC serves are all caught up in this time of rapid change. As a relatively new Board, my fellow directors and I enthusiastically and energetically embrace the opportunity to help in the reshaping and re-engineering of FCC to address the realities of the new economy. FCC is a dynamic organization that is learning from and adapting to change through teamwork. At the same time, we have embarked on important new alliances with partners in the agricultural and financial services industries.

In many organizations undergoing major change, productivity declines significantly. At FCC just the opposite is true. The FCC team members are working harder and smarter than ever before, doing things differently with different products, and the productivity results are impressive. FCC's financial results are the best proof.

Although the productivity advances at FCC have been remarkable and the profitability gratifying, further improvement must be achieved. A highly volatile interest rate environment, combined with increased competition from other lenders seeking to broaden market share in the revitalized agriculture sector, has put significant pressure on lending margins. FCC must work to improve its margins on lending.

FCC will continue to concentrate on improving its service, range of products and profitability in order to continue to enhance its capital base, which is vital to its stability, and to expand lending activities in the agri-business communities. In the year ahead, FCC will propose that amendments to its legislation be considered in order to improve its ability to help the agri-business communities and rural Canada adapt and take advantage of global change.

The Corporation lost a valued friend and advisor in 1995 with the sudden passing of director Howard Fuller from Nova Scotia. Howard's tenure on the FCC Board was brief but his contribution was significant. His candor, wise counsel and wit will be missed.

The year 1995 witnessed the retirement from the Board of Jeannine Caron-Giasson from Québec. Mrs. Caron-Giasson has been a substantial contributor to the success of the Corporation. We thank her for her efforts on FCC's behalf and wish her good health and happiness for the future.

The Board welcomed a number of new members during the course of the fiscal year. Our spread of geographic representation has been improved with the addition of Rashpal Dhillon from British Columbia, Rosemary Davis from Ontario, and Marie-Andrée Mallette and Germain Simard from Québec. Each brings a wealth of experience in business and agriculture, and each has immediately provided additional insight and counsel on policy decisions at the Board.

We look forward to working together to provide value-added financial services to agriculture-based business throughout Canada.

Respectfully submitted on behalf of the Board of Directors,



Donald W. Black

FINANCIAL HIGHLIGHTS

OPERATIONAL	1995-1996	1994-1995	1993-1994	1992-1993	1991-1992
Total Loans Receivable Portfolio					
Number	**60,250**	56,760	55,455	56,687	59,845
Amount ($ Millions)	**4,066.3**	3,535.7	3,322.6	3,308.7	3,503.1
Number of loans approved	**10,193**	6,428	5,117	2,734	3,244
Amount of loans approved					
Gross ($ Millions)	**1,084.9**	658.2	553.9	285.4	365.8
Net ($ Millions)	**1,032.7**	631.9	511.7	277.1	334.6
Average size of loans approved – Net ($)	**101,315**	98,308	100,013	109,696	119,148
Percentage of loans in good standing	**94.9**	95.9	95.0	92.0	89.2
Percentage of total owing in good standing	**94.1**	95.4	94.3	87.8	82.1
Real property held at year end					
Number	**2,171**	2,529	2,758	2,803	2,609
Value ($ Millions)	**153.5**	196.6	221.5	231.9	222.6

FINANCIAL	1995-1996	1994-1995	1993-1994	1992-1993	1991-1992
Revenues and Expenses ($ Millions)					
Net interest income	**105.2**	99.2	87.9	68.6	66.4
Net provision (recovery) for loan impairment	**12.1**	9.7	9.6	–	(12.8)
Net lease and real estate income	**11.3**	8.6	6.9	11.9	15.3
Other income	**4.9**	6.9	2.9	1.7	2.1
Administrative expenses	**67.3**	60.2	59.0	55.3	55.7
Large corporations tax	**1.6**	2.1	0.7	1.2	6.0
Net income for the year	**40.4**	42.7	28.3	20.4	21.6
Financial Position ($ Millions)					
Total assets	**4,371.4**	3,986.3	3,773.6	3,623.0	3,686.9
Total liabilities	**3,951.6**	3,626.7	3,456.7	3,334.4	3,418.8
Equity of Canada	**419.8**	359.6	316.9	288.6	268.1

Agriculture continues to be a cornerstone of the Canadian economy. Primary production generates employment, wealth, value-added industry, international exports and more. Public policy has traditionally centred around the economic health of the farm or the technical aspects of a particular commodity. It is time to expand our economic horizons to include the whole farming sector. The viability of primary agriculture and farming communities are closely linked.

The entrepreneurial spirit is alive and well in farming communities.

FCC's goal is to provide financial products and services which support the business needs of primary producers, agri-businesses and farming communities. FCC is gearing those products and services to the ongoing viability and prosperity of farms and farm communities across Canada.

Farming is a business, but for most farmers and farm families, it is also their preferred way of life. FCC wants to facilitate the financing of business initiatives, especially for young farmers, entrepreneurs and agriculturalists. As the farm community grows and prospers, so does the marketplace. We need a strong agricultural industry to diversify the economy, provide jobs and enhance our community structures.

Optimism in Farm Communities

The Canadian agricultural industry was energized in 1995. Upturns in sectors of the farm market economy have increased farmers' confidence to buy and expand their operations. This fuelled dramatic growth in agricultural lending activity across Canada, and that buoyant attitude was reflected in an exceptional year for FCC. The entrepreneurial spirit is alive and well in farming communities.

Unparalleled Achievements

FCC marked its sixth consecutive profitable year in 1995/96 by approving 163 per cent of last year's volume and over three times the number of loans approved five years ago. This unparalleled lending volume is the result of a combination of factors. Canadian farmers had reason to be optimistic, with higher prices for many of their commodities, generally co-operative weather and bumper crops in many areas.

FCC also contributed to its own success by continuing to develop unique, customer-oriented products such as credit for beef feeder operations and equipment dealer financing. The teamwork approach and dedication of all FCC employees together complement the industry successes and enhance the bottom line for the Corporation. Increased demand for FCC's products and services is the best evidence that the Corporation is serving the needs of its customers.



Senior Management Team

Foreground:

C. Gerald Penney
President and CEO

Seated (left to right):

Paul Lawrence
Exec. Assistant to the President and CEO, and Asst. Corporate Secretary

Terry Craig
V.P. Prairie Region

Marshall Stachniak
V.P. Ontario Region

Jacques Doran
Exec. V.P. Systems Re-engineering

Standing (left to right):

John van Abbema
V.P. Eastern Region

Max Pierce
Exec. V.P. and Chief Economist

Marie-José Bourassa
V.P. and Controller

Russ Holm
Exec. V.P. Operations

Don Jackson
General Manager, Agri-Land

Terry Kremeniuk
V.P. Western Region

M. Blake Walker
V.P. and Treasurer

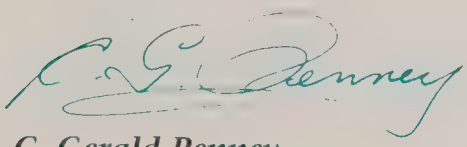
Dale Canham
V.P. General Counsel and Corporate Secretary

Bob Aumell
Exec. V.P. Corporate Restructuring

The Future

Primary agriculture is an important part of the economic base for many rural communities, but it is only one of the engines needed to drive employment growth. Agricultural value-added initiatives, processing, trade, the service sector and farming communities require access to capital to grow, prosper and create employment opportunities for farm families. Traditional lending practices can fail to take into account the unique circumstances associated with operating businesses in rural and remote areas. Therefore, gaps have resulted in financing growth and diversification in Canadian farming communities. FCC is committed to closing those gaps. In order to support the agricultural industry to its fullest, with a wider range of financing options, FCC is seeking further amendments to the *Farm Credit Corporation Act*.

We are constantly energized by the ideas and innovation displayed by our clients. Our vision of becoming Canada's first choice for agricultural finance will become reality only if our clients are successful.



C. Gerald Penney
President and Chief Executive Officer

Objective 1: To ensure the Corporation's ongoing financial viability.

FCC's long-term viability will be ensured through the achievement of a growing, healthy portfolio characterized by reasonable margins on loans, diversification, low levels of arrears or default, and the ability to monitor and manage the loan portfolio. Growth in the portfolio should not outpace that of profitability. It is essential to generate and retain sufficient profit in order to achieve a strong capital structure that will enable FCC to withstand cyclical downturns in the agricultural sector.

A number of key measures validating the continued pursuit of ongoing financial viability are set out in FCC's five-year corporate plan. Most of these – notably net income, debt-to-equity ratio and quality management – met or exceeded the targets for 1995/96.

Progress continued ahead of plan toward the target of $5 billion in revenue-generating assets by March 31, 1999. The loan portfolio, FCC's largest revenue-generating asset, grew by $530.5 million in the current year to close at $4.1 billion. The portfolio also improved in quality this year and is continuing to experience lower levels of arrears and a reduced potential of loss as the Corporation benefits from the impact of its risk management systems and environmental risk policies.

FCC's 1995/96 net income of $40.4 million marks the sixth consecutive profitable year. This solid performance helped to achieve a debt-to-equity ratio of 9.4:1, better than the financial plan of 10.2:1 and an improvement from last year's ratio of 10.1:1. This keeps the Corporation on target to achieve a long-term capital structure represented by a 7:1 debt-to-equity ratio.

Critical to FCC's success is the interest margin earned on lending operations. Despite competitive pressures and a rising interest rate environment at times during the year, FCC achieved a net interest margin that exceeded plan. The current year did, however, see a slight decline in overall margins compared to 1994/95.



In September 1995, FCC paid a $4-million dividend to its shareholder, the Government of Canada. FCC President and Chief Executive Officer, Gerald Penney (left), hands the cheque to Minister of Agriculture and Agri-Food, Ralph Goodale.

Although FCC focused on optimizing the margins from current sources of funding, it continued to seek alternate sources of funding. In July 1995, the Corporation successfully introduced its Euro Medium-Term Note program. This program was established, in addition to existing domestic medium- and long-term notes, to diversify the Corporation's funding and allow access to a cost-effective source of international funds. These programs have proven successful with further offerings planned for 1996/97.

Objective 2: To develop an effective human resource strategy designed to provide employees with the training and support needed to achieve corporate objectives.



FCC strongly believes that client satisfaction is driven by highly motivated and skilled employees. Fostering the professional and personal advancement of staff at all levels continues to be a priority. As the Corporation's client base grows and changes, staff require diversified skills to enable FCC to maintain a high level of service. Training programs are developed and delivered in a strategic manner to meet this need.

FCC is currently re-engineering its business processes to address the new realities of the market.

To be successful in delivering top-notch customer service, accurate information for human resource planning is critical. During the year, the Corporation made substantial progress toward its goal of developing a human resource information system that ultimately will provide the required data in areas of succession planning, training, applicant inventory and management reporting.

The core competency project, introduced in 1995/96, has progressed to phase two of a multi-year plan to identify the requirements for success in FCC's workforce. Competencies are currently the foundation for newly designed recruitment and promotion activities as well as the curriculum model which guides the training and development needs of staff.

The Corporation is firmly committed to progressive human resource management practices. This commitment is reflected in revised human resource policies and in initiatives which demonstrate FCC's values. One such initiative is the work of the Corporation towards a diverse workforce reflective of the Canadian population. One example of this effort is a commitment to support the Aboriginal Masters of Business Administration (MBA) Program in Saskatchewan. An arrangement was made between FCC, the School of Business and Public Administration of the Saskatchewan Indian Federated College, and the University of Saskatchewan's College of Commerce. The aboriginal community benefits with accessibility to business management educational opportunities, and FCC benefits with access to an ongoing source of potential employees.

FCC believes in rewarding employees for results they achieve. Initial work has been undertaken to enter into a comprehensive review and redesign of the compensation framework. When implemented in 1997/98, employee compensation will be strongly linked to corporate goals.



Like many other FCC staff members, Credit Advisor Bonnie Hagborg (left), of Morris, Manitoba, is involved with the local 4-H clubs.

Objective 3: To develop and implement marketing strategies to achieve a $5 billion portfolio of revenue-generating assets by the year 2000 and to achieve the targeted return on equity in each fiscal year.

Progress toward this goal has been gradual since 1994. In the past year, FCC has developed an organizational sales culture as part of the market-driven, customer focus of the Corporation. FCC staff and management are orienting themselves to this sales culture and undergoing training to reach out with marketing expertise and better refine how we serve our clients, and how we nurture the existing and potential business opportunities they bring to the Corporation.

The Corporation's primary focus continues to be on small and medium-sized family farms. Of FCC's 60,250 accounts, approximately 70 per cent are loans of up to $100,000 each. Increased demand for FCC's products and services and rapid penetration into new markets suggest that the Corporation has a vital role to play in Canadian agriculture, at the family farm level and as facilitator of diversification and value-added projects as well as farm-related business enterprises. The Corporation will continue market research and development to ensure the provision of products and services needed and wanted by customers.

The Activity-Based Management project (ABM) was launched to gain insight into how our operating activities drive costs and to identify opportunities for process improvement and cost rationalization. An initial activity and cost model was developed in 1995/96. The model indicates where cost differences occur between lending activities that carry significantly different profiles in terms of risk, margin and volume. This project will continue during 1996/97.

Objective 4: To leverage the use of technology to improve FCC's efficiency and effectiveness.

Successful use of technology can contribute to three key factors of service delivery: enhancing service to external and internal clients; reducing the time frames required to deliver a new product to the marketplace; and controlling expenditures in a competitive environment. FCC's Technology Plan is based on these key factors. The plan incorporates a view of the technology industry and its future direction, and how FCC can use this information to improve its efficiency in serving customers. Each year, this strategic plan is updated as technology advances, and the marketplace matures and changes.

FCC has embarked on a re-engineering project with the goal of improving current business processes and developing new ones. The technology that FCC has at its disposal will enable it to develop new processes that can add speed and efficiencies to our client service.

Objective 5: To be a client-driven corporation with precise service standards that guarantee our clients' expectations are met or exceeded.

FCC prides itself on first-class customer service. National service standards are linked to the Corporation's key result areas and employee performance. Comments from clients and employees are gathered on a regular basis to measure our service. This valuable feedback resulted in the creation of new service standards for FCC in 1995 aimed at guaranteeing consistent, quality customer service across the country.



John and Betty Blaawendraat of Shady Lane Farms in Beaver Brook, Nova Scotia, are building more than a dairy farm. They're building a future for their children. John, Marie and Brian, with FCC's help.

OPERATING ENVIRONMENT

Dynamics of the Agricultural Marketplace

The global marketplace has a major impact on both domestic and international agriculture markets. As a national lender, FCC is challenged and impacted by worldwide pressures.

World agricultural trade has been strong over the last decade, and this growth trend is expected to continue, reaching about $650 billion by the year 2000. Canadian agriculture will see trade opportunities multiply as the North American Free Trade Agreement (NAFTA) and the World Trade Organization (formerly GATT) provide global options.



Brothers Pierre and Roger Hamel (centre) and their children of Saint-Jean Baptiste de Rouville, Québec, take a moment with Credit Advisor Alain Beaudry (right) to admire the lush, green alfalfa crop.

While world trade is growing, the mix is changing from raw materials to highly processed consumer-oriented products. The non-food or industrial use of agricultural products is also an emerging market for Canadian producers. Empowered by the 1993 expanded legislative mandate and prepared to expand its products and services, FCC is well positioned to meet the financing needs of primary producers and extended agriculture-related ventures.

Traditional structures in agriculture are undergoing major changes. Many farmers are taking advantage of marketing opportunities, diversifying their cropping base and venturing into new farming enterprises including specialty livestock and value-added operations. The termination of the *Western Grain Transportation Act* (WGTA) and transportation reform will refocus farmers' business needs. FCC's lending expertise will reflect those needs, whether that means lending for investment in transportation options, non-traditional crops and livestock or processing and value-added industry.

Farmland values fluctuate with supply and demand. Factors having an impact on the income of landowners and/or the cost of producing the products of the land affect the amount of disposable income available for future expansion or land purchase. Land prices peaked in the early 1980s when wheat prices were very strong, followed by almost ten years of depressed land values. With relative stability showing in the price of wheat and other commodities, Canadian farmland values have demonstrated a continuous semi-annual increase since 1993. Increased confidence in agriculture has meant increased lending volumes for FCC. The Corporation continues to monitor the agricultural climate with a view to giving the best possible blend of

products and services to meet the needs of the marketplace. At March 31, 1996, FCC's loans receivable stood at $4.1 billion with projections to reach $4.5 billion by the end of the 1996/97 fiscal year.



In September 1995, three partners gathered to sign the agreement launching the financing program for western Canadian agricultural value-added firms.

Increasing land values also impact FCC's property holdings. Farmers experiencing optimism in their marketplace looked to expand their land bases, and many turned to FCC as their lender of first choice. While the primary purpose for FCC loans is land purchase, its ability to grant non-mortgage loans is clearly increasing the percentage of loans granted for buildings, quota and machinery purchases.

FCC's major focus, however, continues to be service to primary agriculture producers. FCC's $4.1 billion in loans outstanding to Canadian farmers represent approximately 14 per cent of the total Canadian agricultural debt and approximately 28 per cent of total term debt (mortgage loans).

New Initiatives

FCC participated in a number of joint initiatives with the federal government, provinces and other financial institutions. One of them is an alliance formed with Western Economic Diversification Canada and the Canadian Imperial Bank of Commerce to facilitate financing of agricultural value-added enterprises in the four western provinces. The $100-million Agricultural Value-Added Fund is intended to serve small businesses that are ready to go after new or expanding markets.

In another effort to support farmers and agri-business operators, FCC will administer a program which helps farmers and agri-businesses prepare professional business plans. Business Planning for Agri-Ventures, developed by Agriculture and Agri-Food Canada, will be launched in 1996. It will increase the chances of project success by facilitating access to expert agricultural and financial advice.

In 1995/96 a major initiative in the area of farm equipment was started with the design of a retail financing program for a manufacturer. Under this program, the equipment manufacturer arranges the sales and provides FCC with the client information needed to make the credit decision. Since the manufacturer has clients in both Canada and the United States, FCC searched for an alliance with an American counterpart, and found Farm Credit Services, a lending agency similar to FCC, of Minot, North Dakota, to do business with.

In March of 1996, Honourable Ralph Goodale, Minister of Agriculture and Agri-Food, authorized FCC to become a participating financial institution for Net Income Stabilization Account (NISA) investments. The ability to accept NISA investments improves FCC's capability to serve existing customers and to offer a service to potential clients. This extends the Corporation's role of effectively delivering government programs which will enhance farming communities. Farmers investing their NISA accounts with FCC have the opportunity to invest back into agriculture and are assured a 100 per cent guarantee on the dollars invested.

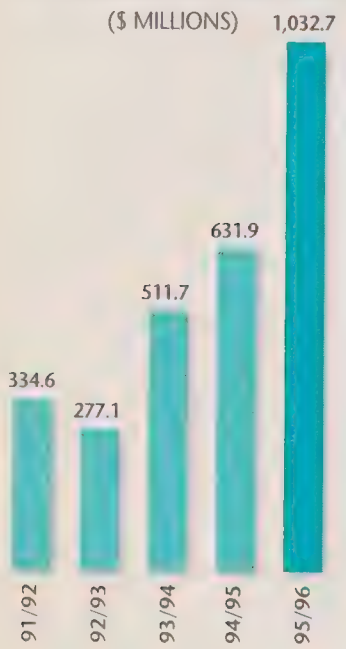
Other initiatives include the National Biomass Ethanol Program, administered by the Corporation for the federal government. This program is an important step towards the development of a renewable energy industry in Canada. It encourages firms to invest in the Canadian ethanol industry by offering a repayable line of credit guaranteed by the government.

Over the past year, FCC has also been working with the growing industry of aquaculture. Close to $18 million have been lent, mainly in New Brunswick.

(For more information about FCC's programs, please refer to p. 39)

OPERATING RESULTS

The fiscal year ended March 31, 1996, saw FCC continue to grow and to improve on all key performance measures. The following sections review FCC's lending and real estate activities and their impact on the Corporation's financial performance for the year ended March 31, 1996.



LENDING ACTIVITY

Table 1 – 1995/96 Key Lending and Real Estate Targets

$ Millions	*Actual*	*Plan*	*% Variance from Plan*
Net loan disbursements	**932.4**	689.5	35
Loan extension rate (%)	**92.9**	92.0	1
Loans receivable	**4,066.3**	3,854.0	6
Loan loss factor (%)	**2.01**	2.06	2
Arrears	**29.3**	31.9	8
Real estate portfolio	**153.5**	191.3	20

Volume of Business

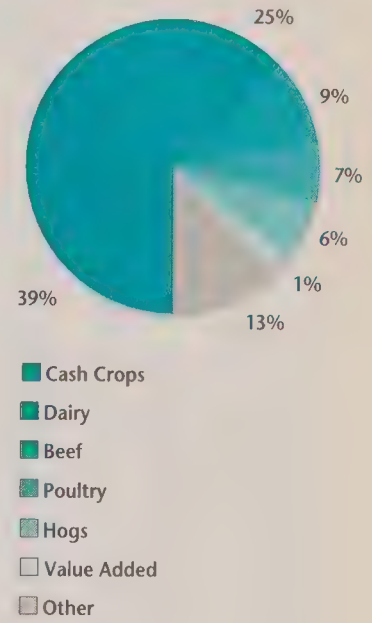
FCC approved a record 10,193 new loans for a net total of $1.0 billion. These approval levels are a 63 per cent increase in dollar volume activity over fiscal year 1994/95 and over a 200 per cent increase since 1991/92.

Although not all approved amounts were fully disbursed at March 31, 1996, the majority are disbursed within the first three months of the new fiscal year as clients require the funds. Net loan disbursements in 1995/96 were a record $932.4 million, a 47 per cent improvement over last year and above the financial plan of $689.5 million.

FCC continues to place emphasis on retaining, as well as increasing, the loan portfolio. Over 99 per cent of clients whose loan terms matured in 1995/96 were offered loan extensions. Close to 93 per cent of these clients, representing over 5,600 loans valued at $463.0 million, have chosen to renew their business with FCC. Although this is a slight improvement over the financial plan, the Corporation strives to continually increase renewal volumes.

CURRENT YEAR LENDING BY ENTERPRISE

BASED ON APPROVED LOAN VALUE



Loan Product Diversity

In 1995/96, clients chose the five-year interest term products as often as all other products combined. This contrast to the overwhelming preference for the one-year product in 1994/95 is attributable to attractive rates being offered for longer-term funds.

Consistent with previous years, lending to cash crops and dairy enterprises dominated new lending activity across Canada.

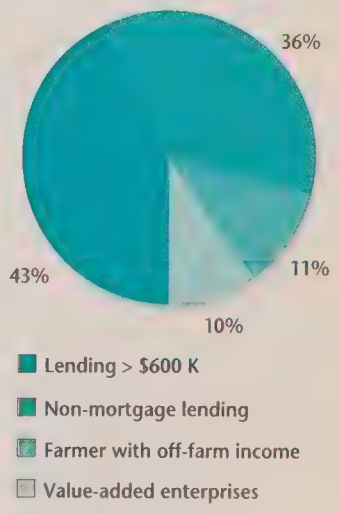
Expanded Mandate Lending

FCC's 1993 expanded mandate provides additional flexibility to make loans in excess of $600,000, to enter into non-mortgage lending and to lend to a broader scope of agriculture-related and value-added ventures.

Expanded mandate lending which supports all FCC traditional (beef, cash crops, etc.) and non-traditional enterprises (aquaculture, abattoirs, seed cleaning, etc.), represented 47 per cent of new lending in 1995/96, compared to 38 per cent in 1994/95. Although increased opportunities result from the expanded mandate, the principal focus remains on primary agriculture, which accounted for 99 per cent of FCC's business in 1995/96. Unfortunately, the Corporation was obliged to decline a number of value-added agri-venture loan applications which would have contributed to rural community development, but did not fall within the scope of the current mandate.

CURRENT YEAR EXPANDED MANDATE LENDING

BASED ON APPROVED LOAN VALUE



Loans Receivable Portfolio

In 1995/96, total new lending and loan renewals, offset by loan repayments, prepayments and transfers to real estate, amounted to $530.5 million, which increased the loans receivable portfolio from $3.5 billion at March 31, 1995, to $4.1 billion at March 31, 1996. Portfolio growth has surpassed planned growth by 81 per cent. This level of performance has allowed FCC to maintain a 14 per cent market share of total Canadian agricultural debt, valued at $25 billion in 1994/95. This level of debt has remained relatively constant since 1985/86 when FCC held 22 per cent of the $23 billion of total debt outstanding.

Strong growth in lending volumes is due to several factors: ongoing efforts to nurture long-term relationships with clients; the increased diversity of projects financed as a direct result of the expanded mandate; and the strengthened Canadian agricultural economy. This is the third consecutive year of total portfolio growth. Provincial growth in 1995/96 has been comparable in each province resulting in the closing portfolio balances shown in Table 2.



Table 2 – Loans Receivable Portfolio as at March 31

	1995/96		*1994/95*	
$ Millions	***Number***	***Amount***	*Number*	*Amount*
British Columbia	**1,781**	**208.2**	1,695	177.7
Alberta	**7,176**	**491.8**	7,175	406.4
Saskatchewan	**19,438**	**966.7**	17,924	848.3
Manitoba	**7,303**	**392.9**	6,813	338.3
Ontario	**14,368**	**1,204.2**	13,824	1,088.6
Québec	**6,982**	**533.4**	6,452	462.0
New Brunswick	**1,755**	**125.9**	1,687	107.2
Nova Scotia	**353**	**43.5**	215	26.7
Prince Edward Island	**930**	**68.6**	811	64.4
Newfoundland	**164**	**31.1**	164	16.1
National	**60,250**	**4,066.3**	56,760	3,535.7
Allowance for loan impairment		**143.7**		125.9
Loans receivable, net of allowance for loan impairment	**60,250**	**3,922.6**	56,760	3,409.8

Allowance for Loan Impairment

The allowance for loan impairment, determined in accordance with the new generally accepted accounting principles (see Financial Statements Note 3), represents management's estimate of probable credit losses embedded in the loans receivable portfolio at the end of the year.

FCC being a single industry lender, its allowance for loan impairment is significantly affected by agricultural and economic trends and uncertainties.

At March 31, 1996, the allowance for loan impairment was $143.7 million, representing 3.5 per cent of total loans receivable. This increased from a $125.9 million allowance in 1994/95, which was 3.6 per cent of total loans receivable. The net charge to income for loan impairment was $12.1 million, compared to $9.7 million for the same period last year.

Portfolio Quality

The credit risks associated with lending are an inherent part of FCC's business. To ensure that the credit quality of new lending is not sacrificed to increase lending volumes, it is imperative to balance the volume of business with the level of risk.

On new lending, risk levels are measured based on estimates of potential loss. The actual risk factor for the year ended March 31, 1996, is 2.01 per cent of the net value of loans approved. This improvement from previous years is largely the result of more comprehensive and relevant loan assessment techniques coupled with the general strength of the agricultural economy.

On the loan portfolio, the loan quality is assessed by monitoring the risk profile and the level of arrears. Total arrears, which represent principal and interest payments that are past due, have been declining since 1991/92 from $103.3 million to the current level of $29.3 million. Two key measures of arrears show steady trends over the past five years. First, arrears expressed as a percentage of loan principal not due (PND) have declined from 3.1 per cent to 0.7 per cent at March 31, 1996. Second, the aging of arrears is more current, with decreasing volumes of arrears older than two years. This is a meaningful measure, as many FCC loans have annual repayment terms. At March 31, 1996, approximately 22 per cent of the closing arrears were in the greater-than-two-year age category. This compares to 60 per cent in that category in 1991/92.

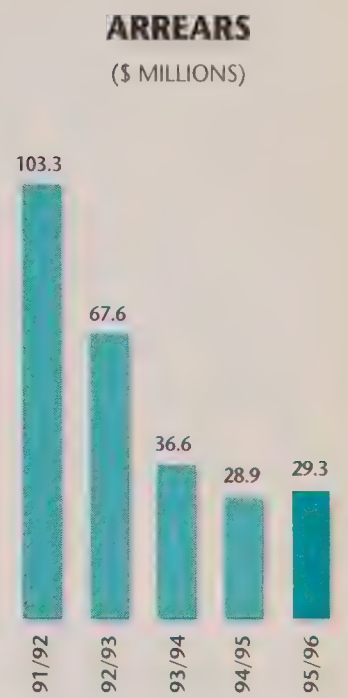


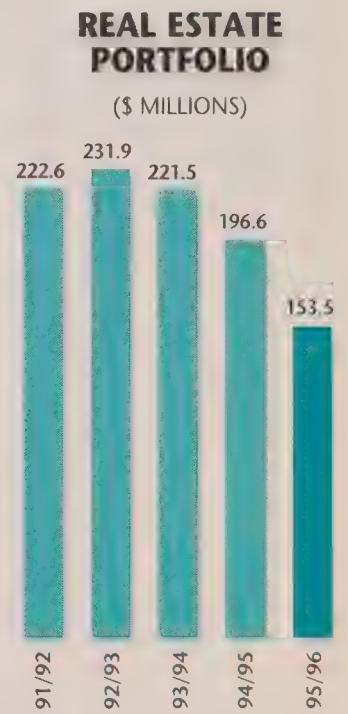
Table 3 – Level of Arrears as at March 31

$ Millions	*Arrears*	*1995/96 PND*	*% of PND*	*Arrears*	*1994/95 PND*	*% of PND*
British Columbia	2.1	205.7	1.0	1.6	177.5	0.9
Alberta	5.3	474.3	1.1	4.3	395.4	1.1
Saskatchewan	8.0	928.9	0.9	7.8	834.1	0.9
Manitoba	2.5	383.4	0.7	1.5	335.1	0.4
Ontario	7.5	1,198.2	0.6	9.1	1,087.2	0.8
Québec	1.5	532.6	0.3	1.0	462.7	0.2
New Brunswick	1.6	123.6	1.3	2.5	104.1	2.4
Nova Scotia	0.3	43.5	0.7	0.3	26.9	1.1
Prince Edward Island	0.4	67.8	0.6	0.4	64.4	0.6
Newfoundland	0.1	31.5	0.3	0.4	16.3	2.6
National	29.3	3,989.5	0.7	28.9	3,503.7	0.8

LEASE AND REAL ESTATE ACTIVITIES

FCC's long-term commitment is to return its portfolio of real estate, acquired as part of the loan settlement process, to Canadian farmers. Ongoing management of the real estate portfolio by FCC's Agri-Land division safeguards the asset so that it may be leased and eventually sold back to farmers. This commitment was as strong as ever in 1995/96.

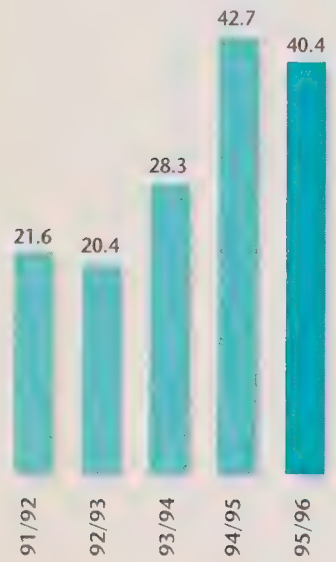
On the leasing side of the business, 94 per cent of the 901,400 acres owned by FCC were leased, an increase from 90 per cent in 1994/95. Of these, approximately 91 per cent were leased back to former owners.



On the selling side of the business, FCC just completed year two of the National Lease-Back Program for all Canadian farmers which allows participating farmers to repurchase their land at any time. Of sales totalling 218,000 acres or $42.0 million in this fiscal year, 63 per cent have been to the former owners. Sales, offset by $8.0 million in acquisitions during the year, resulted in a closing real estate portfolio of $153.5 million, a 20 per cent favourable variance against plan.

NET INCOME

($ MILLIONS)



In 1995/96, FCC took the lead among financial institutions in sharing the Western Grain Transition Payments Program (WGTPP) payment with farmers. FCC agreed to rebate 25 per cent of the WGTPP payment from its tenants' long-term leases as well as to pass on 100 per cent of the payment to tenants who purchased FCC-owned property prior to January 1, 1996. This has stimulated buyers' interest, increasing sales 110 per cent over the plan of $20.0 million, and helped return land to farmers much faster than anticipated.

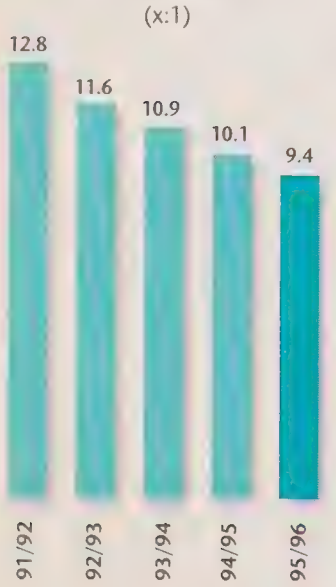
FINANCIAL PERFORMANCE

Table 4 – 1995/96 Key Financial Targets

$ Millions	*Actual*	*Plan*	*% Variance from Plan*
Net income	**40.4**	27.4	47
Net interest income	**105.2**	98.9	6
Lease and real estate income	**(0.9)**	0.4	(311)
Administrative expenses	**67.3**	61.7	(9)
Administrative coverage ratio (%)	**1.62**	1.46	11
Debt-to-equity ratio (x:1)	**9.4**	10.2	8
Return on equity ratio (%)	**10.4**	7.5	39

DEBT-TO-EQUITY RATIO

(x:1)



The fiscal year ended March 31, 1996, has contributed to the Corporation's ongoing objective of achieving long-term financial viability and an improved capital structure.

The net income of $40.4 million, 47 per cent better than projected in the financial plan, results from a $6.3 million above-plan net interest income, as well as partial recovery of amounts previously written off the real estate portfolio totalling $12.2 million. This solid performance helped to achieve a debt-to-equity ratio of 9.4:1, compared to the planned 10.2:1. This is the sixth consecutive year of capital structure improvement.

Net Interest Income and Margin

Net interest income is defined as interest income earned on loans receivable, cash and investments, less interest expense on loans payable. When net interest income is expressed as a percentage of these interest-bearing assets, it is referred to as net interest margin.

Table 5 – Net Interest Income

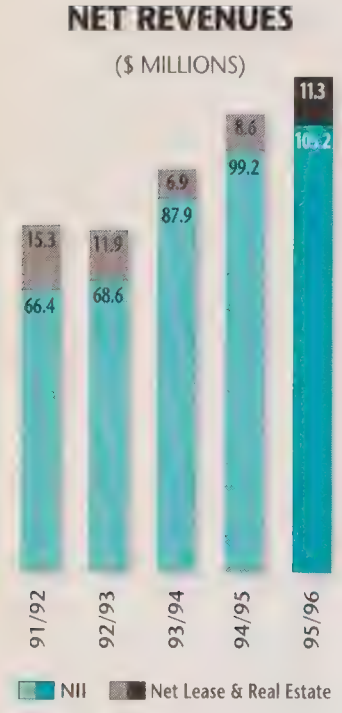
$ Millions	*1995/96 Actual*	*1995/96 Plan*	*1994/95 Actual*
Interest Income			
Loans receivable	**357.5**	348.8	325.6
Investments	**22.0**	21.6	22.8
	379.5	370.4	348.4
Interest Expense			
Loans payable	**240.8**	243.5	226.8
Short-term notes	**33.5**	28.0	22.4
	274.3	271.5	249.2
Net Interest Income	**105.2**	98.9	99.2
Average Interest-Bearing Assets			
Loans receivable	**3,801.0**	3,707.3	3,429.2
Investments	**313.3**	349.3	349.6
Net Interest Margin	**2.56%**	2.44%	2.63%

% ANNUAL GROWTH
IN INTEREST-BEARING ASSETS



Net interest income (NII), at $105.2 million, is $6.3 million above the financial plan. Increasing portfolio volumes and stronger interest rates are the primary reason for the improved interest income at $379.5 million. Average interest-bearing assets increased 9 per cent during the year, as did our average short-term notes and loans payable. The rate of liability growth coupled with higher-than-planned interest rates resulted in total interest expense closing at $274.3 million.

This fiscal year witnessed periods of volatile interest rates largely fuelled by domestic political uncertainty and variations in U.S. economic activity. Being a wholesale borrower, and offering only fixed-rate lending products poses a challenge to FCC in maintaining its margins. FCC was particularly sensitive to periods of volatile interest rates as competitive pressures prevented us from reflecting the increased cost of funds in our lending rates. This is evidenced in our net interest margin for 1995/96, which narrowed by 7.0 basis points from the previous year, closing at 2.56 per cent. An additional challenge ahead for FCC is to continue minimizing the cost of borrowing while sourcing an increasing amount of its long-term borrowings from domestic and international capital markets.



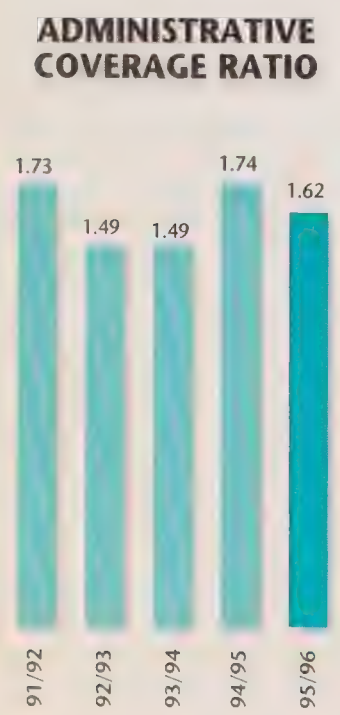
Lease and Real Estate Income

Table 6 – Lease and Real Estate Income

$ Millions	*1995/96 Actual*	*1995/96 Plan*	*1994/95 Actual*
Real Estate Income			
Real estate revenue	13.8	17.6	15.4
Farm Debt Review Board payments	2.0	2.0	8.5
	15.8	19.6	23.9
Real Estate Expenses			
Real estate expenses	3.5	5.0	4.0
Interest expense	13.2	14.2	18.0
	16.7	19.2	22.0
Lease and Real Estate Income	(0.9)	0.4	1.9
Gain on disposal of property	12.2	0.0	6.7
Net Lease and Real Estate Income	11.3	0.4	8.6

FCC's lease and real estate income combines the results from both the leasing and selling lines of the property management business. FCC is committed to leasing properties back to the owner even though lease revenues often are not sufficient to cover the cost of carrying the property.

At March 31, 1996, the lease and real estate loss, which excludes any gains from property disposal, is $0.9 million compared to a planned income of $0.4 million. This below-plan performance is partly attributed to a $3.8 million drop in planned real estate revenues due to a higher-than-anticipated decline in property held, compounded by higher interest rates in carrying the property. Another contributing factor is the decline in Farm Debt Review Board payments, of which government funding for new concessions ceased effective March 31, 1994. From the inception of the program in 1986, annual lease concession payments to FCC on behalf of farmers have decreased from levels in excess of $40 million to the current year's payments of $2 million.



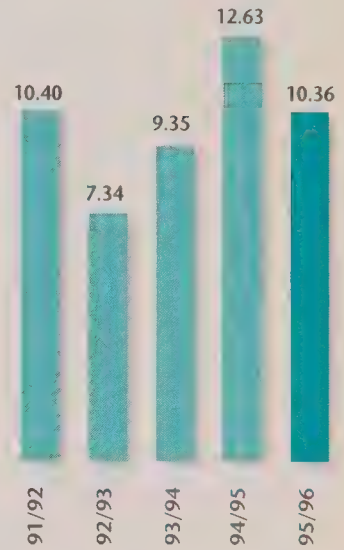
The loss incurred by the lease and real estate activities is offset by the recognition of gains on disposal of property, which in the current fiscal year have totalled $12.2 million. These gains are in line with the increases in farmland values over the last 2 1/2 years, however they represent only a partial recovery of substantial property write-downs incurred in prior years.

Other Income and Administrative Expenses

Other income, which includes appraisal and insurance administration fees, is at $4.9 million. This is 30 per cent below last year's levels, when FCC received a retroactive administration fee from its insurance carriers for services provided on a cost-recovery basis.

Administrative expenses were $67.3 million for the 1995/96 fiscal year, utilizing 109 per cent of the current year's financial plan. Approximately 85 per cent of the administrative expenses are categorized into three primary areas: personnel expenses, travel and training, and accommodations. The 12 per cent increase over the $60.2 million reported last year was directed to supporting the 63 per cent increase in lending activity over 1994/95. During 1995/96, FCC was committed to position itself for significant productivity improvements. These improvements required upgrading technology, implementing sales and sales management techniques, and starting the re-engineering of core business processes. As a result of these decisions, the administrative coverage ratio – the relative measure of net income before non-interest expenses to administrative expenses – deteriorated from 1.74:1 in 1994/95 to 1.62:1 in the current year.

RETURN ON EQUITY (%)

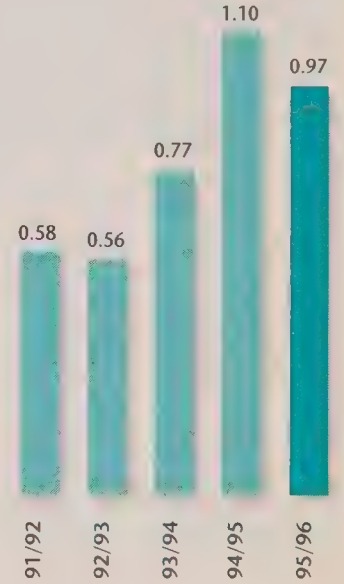


Conclusion

This fiscal year contributed to the Corporation's ongoing recovery from the agricultural recession of the late 1980s. The continued improvement to the financial structure has positioned FCC to withstand a similar downturn in the economy while remaining within the legislated debt-to-equity limit of 12:1.

A strong return on equity, which since 1991 has averaged 10 per cent annually, and an upward trend in return on assets (which decreased slightly in 1995/96) support restored financial viability. Both indicators are above plan, standing at 10.36 per cent and 0.97 per cent respectively at March 31, 1996.

RETURN ON ASSETS (%)



Today's agricultural conditions are largely favourable, which makes agricultural debt a niche market sought by many lending institutions. FCC understands the cyclical nature of the agricultural market place and is committed to keeping its strong focus on farming and agri-business ventures no matter the circumstances.

ASSET/LIABILITY MANAGEMENT

Financial Risk Management

In the ordinary course of business, FCC is exposed to several market risks including liquidity risk, foreign exchange risk and interest rate risk. FCC's performance is affected by its capacity to manage these financial risks.

Management of financial risk is directed by the Asset/Liability Management Committee (ALCO). FCC uses a range of analytical tools to manage financial risk, including duration analysis, gap reporting, net interest income and market value of portfolio equity simulations. FCC manages its financial risk exposures within formal policy limits established by the Corporation's Board of Directors in consultation with the federal Department of Finance. ALCO sets operational risk management guidelines and monitors performance. FCC's Treasury Division develops risk management policies and is tactically responsible for day-to-day management of asset/liability activities.

Liquidity Risk Management

FCC's liquidity management program is designed to provide sufficient funds to meet customer borrowing requirements, maintain stability in its short-term borrowing program and support business operational needs in a cost-effective manner.

Cash flows are forecasted for the fiscal year on a daily basis and are monitored and revised as new information becomes available. As of March 31, 1996, FCC held $260.9 million in assets for liquidity and asset/liability (A/L) management purposes.

A primary measure of liquidity is the proportion of liquid assets, represented by cash and temporary investments, to total assets. The short-term investment portfolio represents 4.5 per cent of total assets and consists of high-grade government and chartered bank investments which are available for immediate sale to meet day-to-day cash requirements. Liquidity is supported via a stable and diversified funding base. Domestic short-term funding sources include FCC's Commercial Paper Program, chartered bank lines of credit and government funding sources. In addition, FCC has the ability to borrow on international capital markets to enhance liquidity. At March 31, 1996, the Corporation had an authorized short-term borrowing capacity of approximately $1.2 billion and had $456.4 million of short-term debt outstanding.



Client Michael Carefott of Swift Current, Saskatchewan, discusses loan conditions for the purchase of a sprayer and trailer with Credit Advisor Scott Sahulka. Scott was able to find the right loan product to make Michael's plans a reality.

Foreign Exchange Risk Management

Foreign exchange (FX) risk arises from foreign currency borrowings transacted to generate cost-effective funding. The majority of FCC's assets are denominated in Canadian dollars; therefore, the Corporation has a policy of fully hedging FX borrowings to eliminate foreign exchange risk exposures. Foreign exchange liabilities are hedged via FX contracts and/or currency swaps at the time of transaction unless the foreign currency proceeds are used specifically to finance an asset of the same currency.

Interest Rate Risk Management

Interest rate risk (IRR), defined as the sensitivity of FCC's earnings and financial condition to changes in interest rates, can result from: i) imbalances in A/L duration matching, ii) mismatches in repricing of assets and liabilities in a given period or iii) embedded options related to our lending practices, for example, loan rate guarantees and prepayment features in lending products.

As part of interest rate risk policy management, FCC targets the duration and maturity structure of its assets and liabilities on a portfolio basis rather than a matching of individual assets with specific liabilities.

A/L positions at risk are measured and managed to ensure compliance with prudent risk tolerance limits established by the Board of Directors. IRR measurement techniques include measures of income and economic net worth variability. Assets and liabilities are managed such that future changes in interest rates do not have a serious adverse impact on earnings and the economic position of the Corporation. Interest rate swaps are used to adjust the Corporation's exposure to interest rate risk. Interest rate options are used to hedge options embedded in FCC's loan products and to manage loan rate guarantees.

The Corporation measures interest rate risk exposures with an A/L modelling system that simulates changes in net interest income (NII) and market value of portfolio equity (MVPE) for changes in the yield curve. Given FCC's interest rate position as at March 31, 1996, assuming an immediate and sustained two per cent decline in interest rates, NII would be lower than planned by approximately $4.1 million over the next 12 months. This exposure is well within the 15 per cent NII variation limit approved by the Corporation and the Department of Finance.

Market value of both assets and liabilities is calculated to determine the market value of portfolio equity. As of March 31, 1996, the market value of the mortgage assets was estimated at $3,966.1 million. Assuming an immediate and sustained one per cent decline in interest rates, as at March 31, 1996, MVPE would be lower by approximately $8.5 million. This exposure is well within the one per cent MVPE variation policy limit of the Corporation.

Gap analysis measures the difference between the amount of assets, liabilities and off-balance sheet instruments maturing or repricing in specified time periods and represents a proxy for interest rate risk. "Gap" positions may positively or negatively impact interest margins depending on the nature or "sensitivity" of the gap and the future direction of interest rates.

The following table highlights FCC's interest-rate sensitivity position as at March 31, 1996. The gap profile shows an asset-sensitive position with an exposure to declining interest rates.

Table 7 – Interest-Rate Sensitivity Gap Position as at March 31, 1996

$ Millions	*Within 6 Months*	*6-12 Months*	*1-5 Years*	*Over 5 Years*	*Non-Interest Sensitive*	*Total*
Assets	823	639	2,237	629	43	4,371
Liabilities and equity	(582)	(378)	(2,162)	(710)	(539)	(4,371)
Off-balance sheet*	(160)	–	160	–	–	–
Total interest rate Sensitivity gap	81	261	235	(81)	(496)	–
Cumulative Interest Rate Sensitivity Gap	**81**	**342**	**577**	**496**	–	–

* Interest rate swaps only

Derivative Management

Derivatives are contracts whose values are derived from an underlying instrument, reference rate or index. FCC utilizes derivatives as an end user for risk management, funding and investment purposes. The Corporation actively utilizes off-balance sheet derivative instruments such as swaps, options, futures and forward contracts to hedge or modify interest rate and foreign currency exposures arising from its business operations.

Common hedging activities include the use of interest rate swaps to hedge interest rate risk positions and alter FCC's interest rate profile as well as the use of interest rate options to hedge prepayment and rate guarantees to customers. Currency swaps are used to fully hedge borrowing in non-Canadian dollar currencies. Forward rate agreements are used to hedge the cost of short-term borrowing and to hedge the asset/liability risk profile. As at March 31, 1996, the total notional amount of outstanding derivative contracts was $1,054.3 million compared to $775.8 million the previous year.



Treasury Analysts, René Bouchard and Lois Swanson, focus on the changing money markets, assessing risks which directly impact Treasury operations.

FCC has had policies for financial derivatives approved by the Board of Directors since 1991. An updated comprehensive financial derivatives policy was approved by the Board of Directors this year. Asset/Liability management activities and risk exposures are reported monthly to ALCO and quarterly to the Board of Directors.

Derivative Contracts and Credit Risk

Table 8 on opposite page provides the notional principal amounts of FCC's derivative portfolio. Derivatives are off-balance sheet transactions whose notional amounts are used to determine cash flows to be exchanged with a counterparty.

Credit risk associated with off-balance sheet activities pertains to the risk of possible loss incurred if a counterparty defaults on its contractual obligations. FCC utilizes 'dollars-at-risk' (DAR) methodology to manage credit risk in its derivative portfolio. DAR is based on statistical estimates of the potential losses FCC could experience due to changes in underlying prices and counterparty failure.

The amount exposed to credit risk, based on DAR, at March 31, 1996, totals $2,918 and represents estimated potential losses of all derivative contracts. FCC minimizes derivative credit exposure by entering into derivative contracts with high creditworthy counterparties and utilizing collateral arrangements and other risk mitigating techniques in its International Swaps and Derivative Association, Inc. (ISDA) master agreements.

Table 8 – Notional Principal Amounts and Current Replacement Cost of Derivative Instrument Portfolio as at March 31, 1996

$ Millions	*Notional Amounts Maturing in: Under 1 Year*	*1-5 Years*	*Total Notional Amount*	*Current Replacement Cost*
Interest Rate Instruments				
Forward rate agreements	0.0	0.0	0.0	0.0
Interest rate swap contracts	0.0	160.0	160.0	(2.1)
Purchased options	360.0	20.0	380.0	1.0
Foreign Exchange Instruments				
Currency swap contracts	411.2	103.1	514.3	(9.7)
Total	**771.2**	**283.1**	**1,054.3**	**(10.8)**

Funding Activity and Borrowing Plan

In 1995/96, FCC used capital markets and direct borrowings from the Consolidated Revenue Fund to fund its business requirements. The Corporation's funding policy is approved by the Government of Canada.

In 1995/96, to diversify funding, FCC continued to expand its borrowing facilities by implementing a $1 billion (U.S. dollar) Euro Medium-Term Note (EMTN) program that became operational in mid-July 1995. In addition to private placement and syndicated capital market issuance, FCC now has three formal programs to source funds from the capital markets: a short-term domestic Commercial Paper Program; a domestic Medium-Term Note (MTN) program; and the EMTN program. In 1995/96, FCC borrowed a total of $930.8 million par value in long-term funds, up from $641.7 million in 1994/95.

Table 9 – Long-Term Gross Borrowings (par value) for Fiscal Year Ended

	March 31, 1996		*March 31, 1995*	
	$ Millions	*% of Total*	*$ Millions*	*% of Total*
Capital Markets				
MTN Program	**407.7**	**44**	339.7	53
EMTN Program	**303.1**	**32**	–	0
Government of Canada	**220.0**	**24**	302.0	47
Total	**930.8**	**100**	641.7	100

FCC's funding programs provide diverse and cost-effective financing for our portfolio of mortgages and property holdings. Based on anticipated new lending activity and depending on market conditions, aggregate new long-term borrowings are estimated to be in excess of $1 billion annually over FCC's five-year planning period.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for loan impairment and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's estimates and judgment.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which includes a majority of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis, and the auditors have full and free access to the Audit Committee.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.



C. Gerald Penney
President and
Chief Executive Officer



Marie-José Bourassa
Vice-President and Controller

Regina, Canada
May 17, 1996

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

I have audited the balance sheet of Farm Credit Corporation as at March 31, 1996, and the statements of operations and deficit and changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an audit opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1996, and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for loans and the related allowance for loan impairment as explained in note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Corporation Act* and the by-laws of the Corporation.



L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 17, 1996

Farm Credit Corporation

BALANCE SHEET

as at March 31, 1996

	1996	*1995*
		(000's)
ASSETS		
Cash and temporary investments (Note 4)	**$ 198,946**	$ 262,868
Accounts receivable	**28,656**	6,278
Long-term investments (Note 5)	**61,916**	102,884
Net loans receivable (Notes 6 and 7)	**3,922,554**	3,409,837
Real estate acquired in settlement of loans (Note 8)	**153,468**	196,651
Equipment and leasehold improvements	**5,895**	7,747
	$4,371,435	$3,986,265
LIABILITIES		
Accounts payable and accrued liabilities	**$ 21,934**	$ 17,371
Short-term notes (Note 9)	**456,369**	503,735
Payments held for real estate (Note 10)	**7,556**	12,019
Provision for employee termination benefits	**4,905**	4,016
Deferred loan fees	**4,888**	5,082
Loans payable (Note 11)	**3,455,952**	3,084,455
	3,951,604	3,626,678
EQUITY		
Contributed capital (Note 1)	**1,118,333**	1,118,333
Deficit (Note 3)	**(698,502)**	(758,746)
	419,831	359,587
	$4,371,435	$3,986,265

Approved:

The accompanying notes are an integral part of the financial statements.

C. Gerald Penney
President and
Chief Executive Officer

Donald W. Black
Chair

Farm Credit Corporation

STATEMENT OF OPERATIONS AND DEFICIT

for the year ended March 31, 1996

	1996	*1995*
	(000's)	
INTEREST INCOME		
Loans receivable	$ 357,440	$ 325,617
Investment income	22,044	22,767
	379,484	348,384
Interest expense	274,299	249,159
Net interest income	105,185	99,225
Charge for loan impairment (Note 7)	12,146	9,739
Net interest income after charge for loan impairment	93,039	89,486
LEASE AND REAL ESTATE INCOME		
Lease and other revenue	28,033	30,620
Operating expenses	3,524	4,075
Interest expense	13,219	17,970
Net lease and real estate income	11,290	8,575
Other income	4,858	6,936
INCOME BEFORE NON-INTEREST EXPENSES	109,187	104,997
Administrative expenses	67,271	60,234
Income taxes – large corporations tax (Note 13)	1,546	2,053
NET INCOME FOR THE YEAR	40,370	42,710
Deficit at beginning of the year (Note 3)	(734,872)	(801,456)
Dividends (Note 1)	(4,000)	–
DEFICIT AT END OF THE YEAR	$(698,502)	$(758,746)

The accompanying notes are an integral part of the financial statements.

Farm Credit Corporation

STATEMENT OF CHANGES IN CASH POSITION

for the year ended March 31, 1996

	1996	*1995*
	(000's)	
OPERATING ACTIVITIES		
Net income for the year	$ 40,370	$ 42,710
Items not involving cash		
Charge for loan impairment	12,146	9,739
Change in accrued interest receivable	(26,586)	6,469
Change in accrued interest payable	(340)	5,083
Other	(12,455)	(852)
Cash provided by operating activities	13,135	63,149
INVESTING ACTIVITIES		
Long-term investments	40,968	(38,488)
Loans receivable disbursed	(1,332,700)	(632,923)
Loans receivable repaid	850,306	395,599
Proceeds from disposal of real estate	55,300	44,239
Other	(6,999)	(3,893)
Cash used in investing activities	(393,125)	(235,466)
FINANCING ACTIVITIES		
Loans from Canada	220,000	302,000
Loans repaid to Canada	(356,089)	(354,004)
Loans from capital markets	707,546	328,567
Loans repaid to capital markets	(204,023)	(99,259)
Change in short-term notes	(47,366)	(11,195)
Dividends paid	(4,000)	–
Cash provided by financing activities	316,068	166,109
DECREASE IN CASH AND TEMPORARY INVESTMENTS	(63,922)	(6,208)
Cash and temporary investments at beginning of the year	262,868	269,076
CASH AND TEMPORARY INVESTMENTS AT END OF THE YEAR	$198,946	$262,868

The accompanying notes are an integral part of the financial statements.

1. The Corporation

(a) Authority and objectives

Farm Credit Corporation (the "Corporation") was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act.*

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the Farm Credit Corporation with its Corporate Office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role is to deliver specific programs of the Government of Canada on a cost-recovery basis and enhance rural Canada by providing specialized and personalized financial services to farming operations, including family farms, and those businesses in rural Canada that are related to farming.

(b) Contributed capital

Contributed capital of the Corporation constitutes capital payments received from the Government of Canada. As at March 31, 1996, the statutory limit is $1,125 million (1995 – $1,125 million).

(c) Dividends

On May 25, 1995, the Corporation's Board of Directors declared a dividend in the amount of $4 million which was paid on September 30 to the Corporation's sole shareholder – the Government of Canada.

(d) Limits on borrowing

The *Farm Credit Corporation Act* restricts the total of direct and contingent liabilities to 12 times the equity of the Corporation. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council. At March 31, 1996, the Corporation's total liabilities were 9.4 times the equity of $419.8 million (1995 – 10.1 times the equity of $359.6 million).

2. Significant accounting policies

(a) Investments

Investments comprise the balance sheet categories of temporary investments and long-term investments. Interest revenue, gains and losses on disposal, amortization of premiums and discounts, and write-downs to market value are reported in investment income.

Temporary investments are acquired primarily for the purposes of liquidity and are intended to be held for less than one year. Where the market value has declined significantly, temporary investments are written down to market value.

Long-term investments are acquired primarily for the purposes of asset/liability management and are intended to be held to maturity. Long-term investments are carried at cost, adjusted for the amortization of premiums or discounts over the term to maturity.

(b) Net loans receivable

Net loans receivable are stated net of unearned income and allowance for loan impairment. Loans are classified as impaired when:

i) principal or interest is 90 days past due, unless the loan is well secured and in the process of collection, or

ii) circumstances indicate doubt as to the ultimate collection of principal and interest.

Interest income is recorded on the accrual basis until such time as management determines that a loan be specifically classified as impaired. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. All payments on the loan are credited against the recorded investment in the loan. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as a charge or credit for loan impairment. The loan reverts to accrual status when all charges for loan impairment are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans. Other loan fees are recorded as other income on the same basis as the related costs.

(c) Allowance for loan impairment

The allowance for loan impairment represents management's best estimate of probable credit losses on the loans receivable in light of current conditions. It has a specific and a general component.

Based on a loan-by-loan review, the specific component is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general component, which is prudential in nature, is established in respect of loans for which impairment has not been specifically identified. In establishing the general component of the allowance, management models historic portfolio migration trends and loss percentages and applies them to loans receivable balances categorized into risk pools. As a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting certain agricultural regions or sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government programs, international trade negotiations, future commodity prices and climatic conditions, in establishing the general component of the allowance. However, future agricultural and economic conditions are not predictable with certainty and, therefore, actual loan losses may vary from management's estimate.

The allowance is increased by charges for loan impairment and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

(d) Real estate acquired in settlement of loans

Real estate, whether held for the production of income through leasing or held for sale, is initially recorded at the lower of the recorded investment in the foreclosed loan and the fair value of the underlying security at the time of acquisition. The fair value of the security is the amount which could be realized in an arm's-length disposition considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Subsequent to acquisition, real estate leased for the production of income is carried at the fair value recorded on acquisition and is not written down for declines in the estimated fair value unless they are significant and permanent. The carrying value of real estate held for sale is adjusted to reflect significant changes in the estimated fair value subsequent to acquisition.

Lease and other revenues from real estate are recorded when earned. Gains and losses arising from the disposal of real estate are included as a component of lease and other revenues.

(e) Farm Debt Review process

Amounts received from the Government of Canada on behalf of farmers for concessions granted by the Corporation under the Farm Debt Review process are applied as if they had been received directly from the farmers.

(f) Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements. Management has revised its estimate of the useful life of computer equipment and software and has prospectively decreased the amortization period from five years to three years. All unamortized balances as at April 1, 1995, and any purchases thereafter will be amortized according to the following methods and terms:

	Methods	**Terms**
Office equipment and furniture	Declining balance	20%/annum
Computer equipment and software	Straight-line	3 years
Automobiles	Straight-line	4 years
Leasehold improvements	Straight-line	Lease term plus the first renewal option

(g) Translation of foreign currencies

Loans and related interest payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

(h) Financial instruments

In order to reduce interest rate risk and funding costs, the Corporation uses various types of off-balance sheet financial instruments such as currency and interest rate swaps, forward rate agreements and purchased options. These instruments are used solely for hedging, not speculative, purposes. The cost of these instruments is amortized on a straight-line basis over the lives of the underlying instruments and reported as interest expense. Gains or losses from transactions are recognized in income on the same basis as the hedged item.

(i) Pension plan

Employees participate in the Public Service Superannuation plan administered by the Government of Canada. The Corporation matches employees' contributions for current or prior service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

(j) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as they accrue to the employees or settlements are reasonably determinable.

(k) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred income tax benefits which have not been recorded and will only be recognized when realized.

3. Change in accounting policy

(a) The Corporation has adopted the new accounting recommendations for impaired loans which came into effect on April 1, 1995. The two most significant policy changes resulting from these recommendations relate to the measurement of loan impairment and income recognition. The changes and their impacts on prior periods are as follows:

	(000's)
(i) Measurement of loan impairment: Where circumstances indicate doubt as to the ultimate collection of principal and interest, the carrying amount of the loan is reduced to its estimated realizable amount. The estimated realizable amount is determined as the fair value of the underlying security of the loan, taking into account the estimated time and costs required to realize the security. Previously, the time required to realize the security was not considered.	
Cumulative prior period charge:	$ (10,257)
(ii) Income recognition: An impaired loan returns to accrual status when all charges for loan impairment are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured. Impaired loans previously did not return to accrual status until arrears were eliminated and, in certain circumstances, the loan was current for two years.	
Cumulative prior period recovery:	34,131
Total cumulative net prior period adjustment:	$ 23,874

The effect of the change on 1996 net income is not determinable.

(b) Restatement of prior period comparative figures is not practical due to the unavailability of data. Accordingly, the April 1, 1995, opening deficit has been restated to give effect to the cumulative net prior period adjustment as follows:

	1996	*1995*
	(000's)	
Deficit at beginning of the year, as previously stated	**$(758,746)**	$(801,456)
Add: Adjustment for cumulative effect on prior years of retroactive implementation of the new accounting recommendations for impaired loans	**23,874**	–
Deficit at beginning of the year, as restated	**$(734,872)**	$(801,456)

4. Cash and temporary investments

	Stated interest rate (%)	*1996*	*1995*
		(000's)	
Cash and temporary investments	4.93 – 7.25	**$197,564**	$260,482
Accrued interest		**1,382**	2,386
		$198,946	$262,868

At March 31, 1996, the market value of cash and temporary investments, including accrued interest, was $199.2 million (1995 – $262.6 million).

5. Long-term investments

	Stated interest rate (%)	*1996*	*1995*
		(000's)	
Long-term investments maturing within:			
– 1 year		**$ –**	$ 15,221
– 1 – 5 years	6.50 – 10.75	**58,012**	83,433
– over 5 years	7.50	**3,266**	3,235
		61,278	101,889
Accrued interest		**638**	995
		$61,916	$102,884

At March 31, 1996, the market value of long-term investments, including accrued interest, was $62.3 million (1995 – $99.0 million).

At March 31, 1996, the weighted average yield to maturity of long-term investments was 6.89 per cent (1995 – 7.00 per cent).

6. Net loans receivable

	Stated interest rate (%)	*1996*	*1995*
		(000's)	
Loans secured by:			
– mortgages	5.00 – 15.00	**$3,621,007**	$3,453,220
– chattels	6.75 – 11.90	**163,705**	–
– notes	6.75 – 14.62	**134,398**	7,216
		3,919,110	3,460,436
Accrued interest – current		**100,109**	65,419
– arrears		**13,646**	9,882
		4,032,865	3,535,737
Recorded investment in loans specifically identified as impaired secured by:			
– mortgages	5.00 – 12.38	**31,726**	–
– chattels	8.25 – 11.00	**1,134**	–
– notes	7.13 – 10.13	**529**	–
		33,389	–
Less: Allowance for loan impairment (Note 7)		**(143,700)**	(125,900)
		$3,922,554	$3,409,837

At March 31, 1996, the weighted average effective rate of loans receivable was 9.60 per cent (1995 – 9.60 per cent).

Loans receivable at March 31, 1995, are shown net of accumulated interest on non-accrual loans of $34.1 million and have not been restated to reflect the adoption of new accounting recommendations for impaired loans (see Note 3).

As at March 31, 1996, loans to farmers and agri-businesses approved but not disbursed amounted to $177 million (1995 – $88 million). These loans were approved at interest rates from 6.75 per cent to 11.375 per cent and do not form part of the net loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by June 30, 1996.

7. Allowance for loan impairment

	1996	*1995*
	(000's)	
Balance at beginning of the year, as previously stated	**$125,900**	$126,500
Adjustment for cumulative effect on prior years for retroactive implementation of the new accounting recommendations for impaired loans	**10,257**	–
Balance at beginning of the year, as restated	**136,157**	126,500
Write-offs, net of recoveries	**(4,603)**	(4,696)
Charge for loan impairment	**12,146**	9,739
Adjustment on portfolio acquisition	**–**	(5,643)
Balance at end of the year	**$143,700**	$125,900
Specific allowance	**$ 8,000**	$ 3,800
General allowance	**135,700**	122,100
Balance at end of the year	**$143,700**	$125,900

As at March 31, 1996, the total recorded investment in loans receivable against which a specific allowance has been identified was $33.4 million. The general allowance was established against the remaining $4,032.9 million investment in loans receivable.

8. Real estate acquired in settlement of loans

	1996	*1995*
		(000's)
Balance at beginning of the year	**$196,651**	$221,568
Acquisitions	**7,958**	12,668
Disposals	**(42,023)**	(37,585)
WGTA reduction	**(9,118)**	–
Balance at end of the year	**$153,468**	$196,651
Real estate under long-term lease maturing:		
within 1 year	**$ 1,360**	$ 65,878
from 1 – 2 years	**61**	983
from 2 – 3 years	**344**	–
from 3 – 4 years	**98,039**	–
from 4 – 5 years	**52,642**	110,125
in five years and beyond	**1,204**	–
	153,650	176,986
Real estate held for sale	**8,936**	19,665
WGTA reduction	**(9,118)**	–
	$153,468	$196,651

Real estate represents farm property acquired in the process of administering loans receivable.

Real estate under long-term lease may be subject to renewal at the expiry of the original lease term. Leases reprice annually.

Payments received from the elimination of the Western Grain Transportation Act (WGTA) subsidy and retained by the Corporation have been recorded as a reduction of the carrying value of the associated property.

Future expected lease receipts, using current lease rates, receivable within:

	(000's)
– 1 year	**$12,582**
– 1 – 5 years	**36,064**
	$48,646

9. Short-term notes

	Stated interest rate (%)	*1996*	*1995*
			(000's)
Short-term notes payable within one year	4.92 – 6.65	**$451,737**	$495,794
Accrued interest		**4,632**	7,941
		$456,369	$503,735

At March 31, 1996, the market value of short-term notes, including accrued interest, was $457 million (1995 – $502 million).

10. Payments held for real estate

	1996	*1995*
	(000's)	
Agri-Land Investment Fund	**$4,754**	$ 7,980
Downpayments on real estate sales	**2,802**	4,039
	$7,556	$12,019

The Corporation may, through equity-building lease programs, lease real estate acquired in settlement of loans back to the former owner ("the lessee"). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Corporation. At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

11. Loans payable

	Stated interest rate (%)	*1996*	*1995*
		(000's)	
Loans from Canada, secured by notes	6.29 – 10.21	**$2,115,025**	$2,251,114
Loans from capital markets, secured by notes			
Payable in:			
Canadian dollars	5.25 – 9.00	**896,273**	491,606
U.S. dollars ($275,000,000)	5.21 – 7.75	**378,210**	274,950
		3,389,508	3,017,670
Accrued interest		**66,444**	66,785
		$3,455,952	$3,084,455

At March 31, 1996, the weighted average yield to maturity of loans payable was 7.87 per cent (1995 – 8.12 per cent).

The annual interest rates and yield to maturity disclosed above are net of currency swaps (see Note 12), which are used to convert borrowings to Canadian dollar obligations.

Amounts due:		
within 1 year	**$ 511,219**	$ 463,941
from 1 – 2 years	**680,964**	536,851
from 2 – 3 years	**716,420**	613,996
from 3 – 4 years	**325,802**	470,425
from 4 – 5 years	**435,130**	262,749
in five years and beyond	**719,973**	669,708
	3,389,508	3,017,670
Accrued interest	**66,444**	66,785
	$3,455,952	$3,084,455

At March 31, 1996, the total interest expense recognized on loans payable (including interest expense allocated to lease and real estate income) was $254 million (1995 – $245 million).

12. Off-balance sheet financial instruments

The Corporation uses hedges and derivative financial instruments with off-balance sheet risk to manage exposures to interest rate and foreign exchange fluctuations and to reduce funding costs.

The contractual (notional) Canadian dollar principal amounts of financial instruments outstanding at March 31, 1996, were as follows:

	1996	*1995*
		(000's)
Currency swaps	**$ 514,260**	$415,110
Interest rate swaps	**160,000**	138,000
Forward rate agreements	**–**	212,661
Purchased options	**380,000**	10,000
	$1,054,260	$775,771

13. Income taxes

(a) Timing differences of approximately $79 million are available to the Corporation as at March 31, 1996. These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the charge for loan impairment charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $591 million and expires on the dates indicated:

	(000's)
March 31, 1997	**$108,000**
1999	**270,000**
2001	**143,000**
2003	**70,000**
	$ 591,000

(b) Income taxes payable by the Corporation relate to the large corporations tax, which may be offset against any current or future surtaxes payable. The Corporation has no surtax currently payable.

14. Operating leases

Future minimum payments on operating leases for premises, with initial non-cancellable lease terms in excess of one year, are due as follows:

	(000's)
within 1 year	**$ 5,229**
from 1 – 2 years	**4,544**
from 2 – 3 years	**4,047**
from 3 – 4 years	**3,666**
from 4 – 5 years	**2,966**
in five years and beyond	**2,492**
	$ 22,944

These leases generally provide for payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

15. Government programs

Net Income Stabilization Accounts

In March, 1996, the Corporation received approval from the Minister of Agriculture and Agri-Food to become an eligible financial institution for administering Net Income Stabilization Accounts (NISA). The Corporation began accepting NISA investments from Canadian farmers in May 1996.

Western Grain Transportation Act

The Corporation will receive an estimated $15.5 million transition payment as a result of the elimination of the *Western Grain Transportation Act* (WGTA) announced in the February 27, 1995, federal budget. The Corporation established a two-part program to share the transition proceeds with its clients. Clients can benefit from only one part of the program and proceeds will be forwarded when received from the Western Grain Transition Payments Program (WGTPP).

a) Clients who purchased land after February 27, 1995, will receive 100 per cent of the WGTPP proceeds associated with the property purchased – provided the sale was completed prior to January 1, 1996.

b) Clients who are former owner/tenants will receive 12.5 per cent of the WGTPP proceeds associated with land leased in 1995 and 12.5 per cent of the proceeds associated with land leased in 1996. The maximum payout associated with any parcel of land under lease is 25 per cent of the WGTPP proceeds associated with the parcel.

Farm Debt Review Act

During the year, the Minister of Agriculture and Agri-Food was authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the *Farm Debt Review Act.* The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments.

Since the inception of the Farm Debt Review process, the Corporation has offered $279 million in concessions and billed $276 million to the Government of Canada, of which $8 million was billed in the current year. The committed difference of $3 million will become due and be received over the next three years as farmers meet their commitments and thereby realize the benefits of the concessions.

Government funding for new concessions under the *Farm Debt Review Act* ceased effective March 31,1994.

Commodity-Based Loans

Net loans receivable at March 31, 1996, included $241 million of loans under the Commodity-Based Loans program. In 1996, the Corporation received $9.9 million from Agriculture and Agri-Food Canada as compensation for concessions made under the program. Concessions relate to preferential interest rates provided to borrowers under the program and cease when the related loans are retired. The program has not been available for new lending since 1989.

16. Comparative figures

Certain 1995 comparative figures have been reclassified to conform with the presentation adopted in 1996.

FCC PRODUCTS AND SERVICES

FCC serves two roles: providing financial services to Canadian farmers by filling market gaps and serving as a vehicle for government policy delivery.

TERM LOAN

Term loans offer interest terms from 1 to 20 years and amortization periods of 3 to 29 years. Farm cash flow planning is made easier with fixed payments. A locked-in rate provides peace of mind during periods of interest rate volatility.

ONE-YEAR CONVERTIBLE LOAN

The one-year term is convertible to a longer term at any time without penalty. The lower interest rates of a short-term loan are coupled with the security of a locked-in rate.

SHARED RISK MORTGAGE

The shared risk mortgage is a six-year term with a ceiling of 2.5 per cent on increases and a variable payment plan. Rate adjustments are shared equally by the borrower and FCC. This option, which cushions the impact from volatile interest rates, is especially beneficial when interest rates rise.

PRE-AUTHORIZED CREDIT

Pre-authorized credit offers maximum convenience and service. Pre-approved credit is active for up to 12 months and may be renewed. The borrower is under no obligation to borrow the funds that haven't been used.

FAMILY FARM LOAN

The family farm loan facilitates the transfer of farm real estate from one generation to the next. The seller receives a percentage of the appraised value of the property at the time of sale and is paid in full after four years. The buyer benefits by having loan payments go towards building equity in the purchase rather than paying interest costs. This loan product not only allows to keep the farm in the family, but also to build a stronger capital base for the future.

FARMBUILDER CONSTRUCTION LOAN

With this loan, the borrower has up to one year to complete the construction project before payment is required. The borrower draws funds as needed. At project completion, the loan is converted to one of FCC's regular loan payment options. This loan helps keep options open as interest rates fluctuate and allows better cash flow management and flexibility.

FARM EQUIPMENT FINANCING

Farm equipment dealers can offer their clients central desk financing through FCC. Customer loan approvals are possible within one to three hours. Piloted in eastern Canada, the concept has the potential for application across the country.

AGRI-LAND

Agri-Land Sales and Leasing, FCC's property management division, offers investment leases and provides lessees with the opportunity to deposit into an equity-building investment fund for future land purchases.

MEDIUM AND LONG-TERM NOTES

These notes, similar to bonds, are offered to individuals in multiples of $1,000. They are issued daily at competitive market interest rates, for maturities that may range from 1 to 29 years. Their purpose is to provide capital to help Canadian farmers finance property, equipment or other assets.

EURO MEDIUM-TERM NOTES (EMTN)

The EMTN program will facilitate issuance of notes denominated in various currencies and for maturities up to 29 years. The program allows for potential distribution in the United States on a private placement basis, the Euro-markets and the Canadian market.

AGRICULTURAL VALUE-ADDED LOAN PROGRAM

This program includes a $100-million fund designed to assist small or medium-sized western Canadian agricultural value-added processing firms in accessing long-term debt capital. The funds can be used to finance commercial research and development, pre-commercial and commercial product development, new production capacity and market development. It is offered in conjunction with Western Economic Diversification and the Canadian Imperial Bank of Commerce.

Programs Administered by FCC for Agriculture and Agri-Food Canada

NATIONAL BIOMASS ETHANOL PROGRAM

Introducing a line of credit guaranteed by the government, this program allows ethanol producers to reschedule long-term debt in the event of financial difficulties. It supports firms investing in the Canadian ethanol industry and makes it easier for producers to obtain private-sector funding.

CATTLE OPTIONS PILOT PROGRAM

A flexible, accessible and relatively inexpensive price insurance plan is available to protect slaughter cattle producers from falling prices.

BUSINESS PLANNING FOR AGRI-VENTURES

This pilot program provides farmers with the opportunity to access agricultural expertise. It facilitates the planning stages of expansion or the establishment of non-primary agricultural and agriculture-related businesses.

CORPORATE OBJECTIVES 1996 - 2001

Objective 1: To manage the change process to become "operationally excellent."

FCC strives to provide the best possible financial service to its customers. Delivering quality service can be a challenge considering the rapid changes in agriculture and the changing expectations of FCC's clients. FCC is striving to achieve "operational excellence" by identifying and improving those processes most critical to meeting current and future client needs.

Objective 2: To develop marketing strategies that promote portfolio growth in order to achieve financial objectives.

FCC is to operate on a self-sustaining basis while providing a stable, alternative source of financing for Canadian agriculture. Having our customers "Think FCC First" is an important step in reaching our financial objectives. This will be accomplished by determining client needs, developing those areas of greatest market potential and mobilizing the necessary resources to deliver our products given the flexibility of an expanded mandate.

Objective 3: To develop an effective human resource strategy designed to provide employees with the training and support needed to achieve corporate objectives.

Organizational change offers opportunities for growth and development. Corporate goals can only be achieved with well-trained and motivated staff who understand client needs. Processes designed to assist employees deal with the impact of change, within the Corporation and at the farm gate, are critical to FCC's future success. This assistance is provided through increased training, development and resource support.

Objective 4: To achieve a rate of return on equity to ensure the Corporation's ongoing financial viability.

As a corporation whose focus is on agriculture and on client needs, a solid portfolio is necessary for FCC to continue to provide a valuable service to Canadian agriculture. FCC plans to realize portfolio growth and improve its return on equity through 1996/97. This will be achieved by improving the quality of its loan portfolio and striving to lower the average cost of fund by enhancing the management of commitment risk and exploring new sources of funds at more competitive rates for its clients.

Objective 5: To be the employer of choice by making communications everyone's business.

FCC's goal to be the lender of first choice is rivalled only by its ambition to be the employer of choice. FCC recognizes that stellar communication is key. External and internal communication is more than a selective information exchange – it means sharing information on all business activities with staff. Well-informed employees are able to keep clients abreast of changing corporate and industry information which is relevant to their operations.

Objective 6: To work with other government agencies and departments to fulfil FCC's public policy role.

In its secondary role, FCC serves as a delivery vehicle for government programs which will enhance Canadian farms, agri-business ventures and farming communities. Most of the Corporation's lending staff are trained agrologists with a first-hand understanding of the challenges facing the industry. FCC is committed to sharing information with industry groups and the federal government to support strategic and policy decisions that will benefit Canadian agriculture.

FCC LOCATIONS

Regional Offices	District Offices	Field Offices
EASTERN REGION **Atlantic Provinces** Suite 230 1133 St. George Blvd. Moncton, N.B. E1E 4E1 (506) 851-6595	Charlottetown, Moncton	Grand Falls, Kentville, St. George, St. John's, Summerside, Sussex, Truro, Woodstock
Québec Champlain Building Suite 2000 2700 Laurier Blvd., Box 3600 Sainte-Foy, Qué. G1V 4C7 (418) 648-3993	Sainte-Foy, Saint-Hyacinthe, Sherbrooke	Alma, Drummondville, Gatineau, Granby, Joliette, Rimouski, Saint-Georges de Beauce, Saint-Jean, Saint-Jérôme, Trois-Rivières, Valleyfield, Victoriaville
ONTARIO REGION Unit 201 450 Speedvale Ave. West Guelph, Ont. N1H 7G7 (519) 821-1330	Chatham, Guelph, Nepean, Walkerton, Woodstock	Barrie, Campbellford, Casselman, Clinton, Essex, Kingston, Lambeth, Lindsay, Listowel, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Wyoming
PRAIRIE REGION **Manitoba** 400-5 Donald Street Winnipeg, Man. R3L 2T4 (204) 983-4039	Brandon, Portage la Prairie	Arborg, Carman, Dauphin, Killarney, Melita, Morden, Morris, Neepawa, Steinbach, Stonewall, Swan River, Virden
Saskatchewan Suite 900 1801 Hamilton Street Regina, Sask. S4P 4L5 (306) 780-5610	North Battleford, Regina, Saskatoon, Swift Current, Yorkton	Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, Prince Albert, Rosetown, Tisdale, Weyburn, Wynyard
WESTERN REGION **Alberta/British Columbia** Exchange Tower Suite 1550 10250-101st Street Edmonton, Alta. T5J 3P4 (403) 495-4488 *Yukon and North West Territories are served through the Edmonton Office*	Grande Prairie, Kelowna, Lacombe, Lethbridge, Vegreville, Westlock	Abbotsford, Barrhead, Brooks, Calgary, Camrose, Dawson Creek, Edmonton, Fairview, Falher, Grimshaw, Hanna, Medicine Hat, Olds, Stettler, Stony Plain, St. Paul, Three Hills,Vermilion, Wainwright, Wetaskiwin

Agri-Land Sales and Leasing
Suite 900
1801 Hamilton Street
P.O. Box 4320
Regina, Sask. S4P 4L3
(306) 780-8411
1-800-910-5263

Corporate Office
1800 Hamilton Street
P.O. Box 4320
Regina, Sask. S4P 4L3
(306) 780-8100

Toll-free from anywhere in Canada
1-800-387-3232

Internet:
HTTP://WWW.FCC-SCA.COM

Cette publication est également offerte en français.

Printed on recycled paper using canola-based inks.

Think FCC 1st... For Service

Knowledge and Courtesy

We are professionals who specialize in providing the best financing for Canadian farmers and agri-business.

Respect

Client confidentiality is respected at all times.

No Surprises

From start to finish, we outline the process clearly, identify required information and provide an explanation of applicable fees.

Flexibility

We offer a broad range of products and payment options to meet your particular needs.
We are continually adapting to better serve the dynamic Canadian agricultural industry.

Open Communication

We keep the information flowing.
If you have a request, we make sure we understand it, set a deadline to respond to it, advise you of any delays and follow up to evaluate your satisfaction.

Your Opinion Is Important to Us

Collecting your opinions, formally and informally, is a routine business practice. Your suggestions have been used and will continue to be used to improve our products and services.

FCC SCA
Farm Credit Corporation Société du crédit agricole

Canada

CA1
DB41
-A55

FCC 1997



ANNUAL REPORT

Vision

To be Canada's first choice for agricultural finance.

Purpose

To enhance agricultural growth in Canada by providing specialized and personalized financial services to farming operations, including family farms, agri-food businesses in rural Canada, including small and medium-sized businesses that are related to farming.

To serve as an [illegible] for federal policy on agricultural issues.

Corporate Profile

Farm Credit Corporation (FCC) is a federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food. Established in 1959, FCC is Canada's largest agricultural real estate lender.

The Corporation is governed by a Board of Directors comprised of [illegible] representatives from across Canada. Farmer-owned co-operatives and associations and operations form the majority of FCC's clientele. Under the *Farm Credit Corporation Act*, FCC offers a wide range of flexible financing solutions supporting farmer-controlled diversification initiatives and value-added agricultural operations [illegible] the farm gate. The *Financial Administration Act* provides for the financial control and accountability of FCC and outlines its relationship with the Government of Canada. FCC delivers joint programs and services with provincial governments and other financial institutions.

FCC has a loan portfolio of $[illegible] primarily valued at $4.7 billion. Approximately 850 employees serve clients from over 100 offices in farming communities across Canada. FCC's Corporate Office is located in Regina, Saskatchewan.

Table of Contents

Chair's Message 1

Performance

- [illegible] 3
- Marketplace Gains 10
- Alliances & Partnerships 11
- Public Consultation 14

Management Discussion & Analysis

- Operating Environment 15
- Operating Issues 18
- Financial Performance 25
- Risk Management 31

Special Features

- Working & Living for the Community 13
- Outlook 27
- Senior Management 29

Financials

- Highlights 30
- Auditors' Report 31
- Statements 37

Corporate Governance 49

Glossary 54

Credits:

Project Management:
Lynn Armstrong, [illegible]

Design & Production:
Brown Communications Group

French Translation:
Violette Talbot, *Gatineau*, Québec

Principal Photographer:
Paul Austring, *Regina*, Saskatchewan

Contributing Photographers:
Jean-Gil Hevey, [illegible]
Paul A. Smyers, [illegible]
Rick Doucet, *St. George*, New Brunswick
Kevin Argue, *St. Catharines*, Ontario

Electronic Pre-press & Printing:
PrintWest Communications,
Regina, Saskatchewan

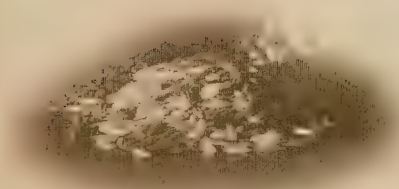
Agriculture harnesses energy contained in plant and animal life, causing renewal and growth.

the seed for farm credit is planted

This year marks the 70th year since the *Canadian Farm Loan Act* was passed, which formed the basis for agricultural lenders and farmers to jointly foster agricultural growth in Canada. Building a relationship of this kind takes plenty of listening.

In celebration of FCC's history of partnering with Canadian producers, we are pleased to present profiles of Canadian farmers who talk about their experiences in agriculture, and what they see for the future of the industry.

Berthe and Raymond Fréchette from Québec are now retiring after 50 years of building a successful farming operation and raising four children. They leave behind a legacy of prudence and sound judgement. Terri-Lynn and Roger Schmitz from Saskatchewan, featured on the cover, are looking forward to a future of farming with their children Dustin, 8, Colton, 5, and brand-new baby, Tiana Lynn.



... farmers provide the energy, the initiative and the talent.

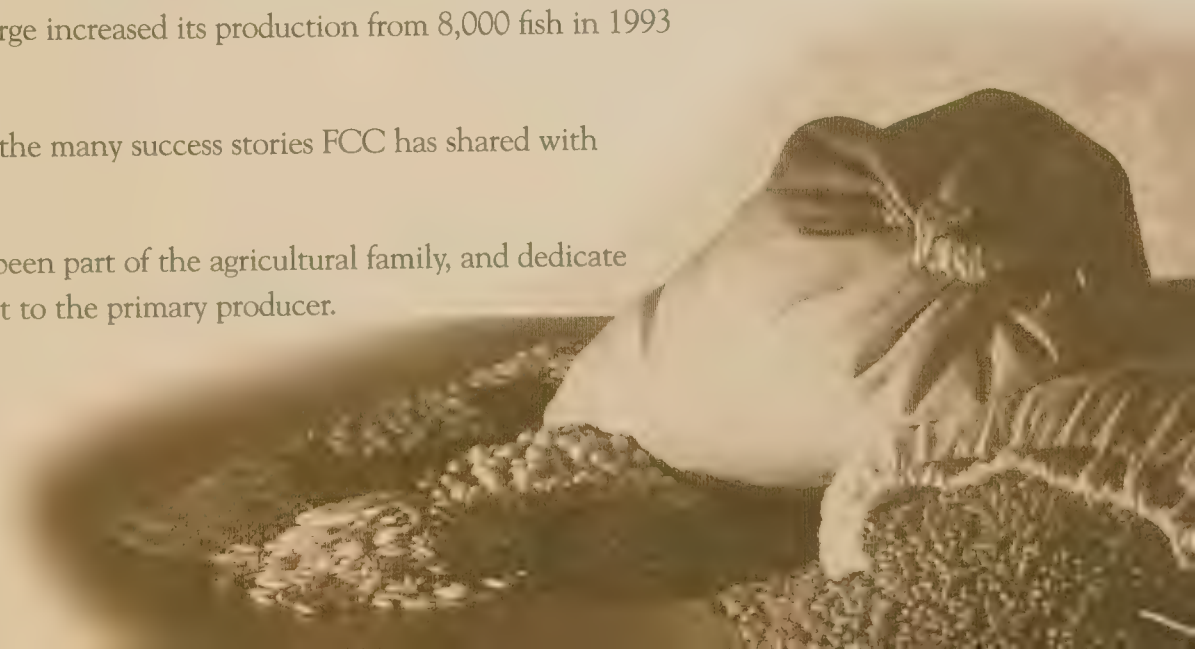
Paul Speck, an Ontario viticulturist and winemaker, says the path to the future is to control the end product by extending the shelf-life of the raw material beyond harvest. Jean-Marie Fortin in Mistassini, Québec, turned an obstacle into an opportunity, building a blueberry freezing plant in his community.

As the industry evolves, farmers continue to work together using technology and innovation to pave the way to the future. The Himmelsbach family is making unprecedented strides in cattle breeding through biotechnology. Larry Jewett from Mouth of Keswick, New Brunswick, designed a new container to ship cattle to overseas markets that were formerly out of reach.

Then there are those whose success paid off as a result of persistence, like Ken Brown, also of New Brunswick, whose family-owned aquaculture operation near St. George increased its production from 8,000 fish in 1993 to 320,000 fish today.

These are just a few of the many success stories FCC has shared with clients over the years.

We are proud to have been part of the agricultural family, and dedicate this year's annual report to the primary producer.



a message from the chair

Traditionally, farmers worked the land, doing "whatever it takes" to sustain family and community. That tradition continues but the farmer's field is now of global proportions.

Consumer trends, increased competition and technology are drastically changing the agricultural industry, as well as influencing the Canadian economy as a whole.

Canadian farmers are virtually redefining the agricultural industry in seeking out new products and markets. FCC's challenge is to employ our industry knowledge to be at the leading edge of agricultural finance to assist that process. FCC must continue to change and grow as well. In meeting that challenge, we are inspired by the primary producer, from a farmer in New Brunswick who developed specialized containers for shipping cattle overseas, to the young family featured on the cover who are diversifying their operation to ensure their children will have a future in farming.

These stories, and the others featured in this annual report, illustrate an optimism in the future of agriculture, which is confirmed by FCC's record number of agricultural loans made last year.

Lending activity in 1996/97 grew to $1.4 billion compared to $1.0 billion last year. The net result is $4.7 billion in total loans outstanding to Canadian farmers and agribusinesses, a 15 per cent increase. FCC's portfolio now represents approximately 16 per cent of total agricultural term debt in Canada.

FCC and Agriculture Prepare for the Next Century

In our public policy role, we serve the borrowing requirements of agriculture through good and bad times. A financial institution cannot lend money without incurring some losses. As FCC is solely focused on agriculture, we must balance our single-industry concentration by having a geographically diverse portfolio, spread throughout the various segments of agriculture and agribusiness, to mitigate risk and ensure long-term sustainable profitability. By building its capital base, FCC will continue to keep pace with the financial needs of a growing industry.

The Corporation financed growth during a year of tremendous change. FCC restructured the Corporation and re-engineered lending processes,

> "The next CEO will lead t

committing approximately $40 to 50 million over five years to a major re-engineering program, to ensure that our internal environment reflects the transformation occurring in the worlds of finance and agriculture. FCC's goal is to diversify service delivery to address the individual needs of customers. The Corporation invested $9.7 million during the 1996/97 fiscal year, the first year of the project.

In This Report...

- How FCC Measured Up p.5
- FCC Filling Market Gaps p.10
- Management Discussion & Analysis p.12
- Living & Working for the Community p.14
- 1997-2001 Objectives p.34
- Financial Statements p.37
- Corporate Governance p.58



CC continues to ensure financial tools are available
forging alliances with other businesses, financial
stitutions and governments. FCC and the Business
evelopment Bank of Canada (BDC) have piloted
customer referral service. We have formed alliances
th other financial institutions to offer joint services
farmers. On behalf of Agriculture and Agri-Food
anada, we deliver a number of programs developed
support a strong, vibrant agricultural sector in Canada.

Holding our track record as
a measuring stick for the future,
we are confident we can
meet future challenges."

. Gerald Penney stepped down in December 1996 after
iepherding FCC through the difficult financial terrain
the last decade to the profitable organization of today.
he next Chief Executive Officer will focus the vitality
nd expertise of the Corporation on the needs of the
gricultural industry at a pivotal point in history; both
ie industry and the Corporation have hurdles and
iallenges to overcome in taking advantage of changes.

orporation into the future."

Holding our track record as a measuring stick for the
uture, we are confident we can meet future challenges.
Our financial results are the best evidence of FCC staff's
ommitment to our customers and the Government
f Canada. FCC is reporting its seventh consecutive
ear of profitability with net income of $40.6 million.
n addition, a dividend of $2.7 million was paid to the
Government of Canada on September 30, 1996.
This is the second year in which FCC paid a dividend,
bringing the total to $6.7 million to date since 1995.

Over the last five years, FCC has seen a steady increase
in demand for its services by Canadian farmers and
agribusinesses. FCC is developing plans tailored to new
and expanding farmers, which we expect to launch in
1997/98. The $50 million in additional capital, recently
announced by the federal government, will contribute
to the Corporation's ability to develop products and
services to meet the financial needs of a growing industry.

There will never be a time when change ceases.
We are not surprised by change. We expect it and
work to help our customers take advantage of it.

Respectfully submitted on behalf of the Board of Directors and Farm Credit Corporation.

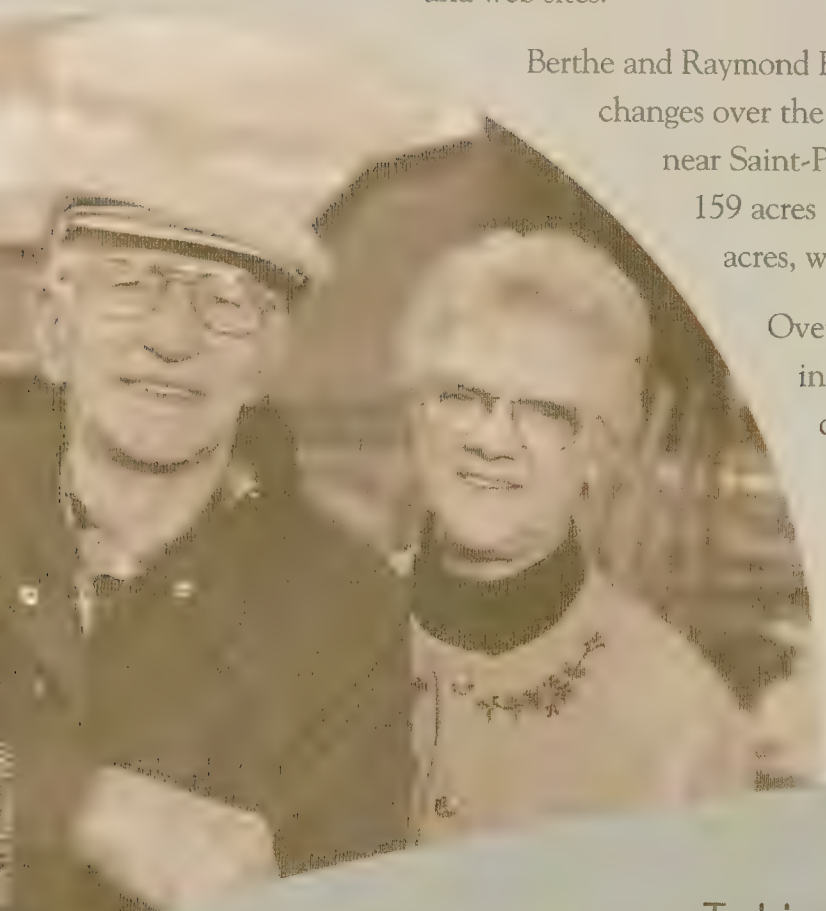
Donald W. Black

Chair, Board of Directors
Acting Chief Executive Officer



Leaving a Legacy of Prudence and Sound Judgement

Over the century, farmers have witnessed radical changes – from the days when electricity was a novelty and the invention of the power take-off and the hydraulic lift revolutionized farming, to the age of satellite dishes and web sites.



Berthe and Raymond Fréchette have lived those changes over the past 50 years on their farm near Saint-Paul, Québec which began as 159 acres in 1948 and now spans 476 acres, worth more than $2 million.

Over the years, they have been involved in hog production, dairy cows, and a 2,200 bucket tap-sugar-maple operation. Farmers today call this diversification. Back then, it was tagged "doing what it takes."

"I thought my hogs were twice as profitable as my dairy cows, until I undertook a study from 1951 to 1953 which proved the opposite," says Raymond. Since then, the operation's focus has been on milk production and raising purebred registered Holsteins. They bought milk quota as their production grew and today, it is greater than 1,500,000 pounds (66 kilograms of fat content per day). Starting with five purebred Holstein heifers in 1962, they now have over 200 head.

The couple is looking forward to retiring, but not without a sense of satisfaction of their family's accomplishments, including three sons and a daughter. In 1966 they were awarded the silver medal, the *Ordre du mérite agricole*, a prestigious award of merit in agriculture. In 1971, the Fréchettes won the gold medal and were named Farmer of the Year.

Their secret? Prudence and sound judgement.

Taking a Leap of Faith

Terri-Lynn and Roger Schmitz do their banking by telephone and pay their bills by computer from their farm near Central Butte, Saskatchewan. Their children, Dustin, 8, Colton, 5, and newborn baby, Tiana Lynn, have a world of information at their fingertips via the Internet. The Schmitz family is using today's tools to preserve a 74-year family farming tradition.

Roger believes learning from the past and diversifying is the way to do that.

A pilot for 10 years, Roger is venturing into crop spraying to complement their cash crop and cattle operation. He says spraying is a vital part of the growth process, pointing to approximately 10 years ago when grasshoppers literally mowed through fields.

"A lot of farmers lost a lot of money," he says. "If there had been a plane in the area, it might have helped the situation."

In his research over the past eight months, Roger also discovered aerial fertilizing is another new avenue to be explored. Top-dressing cereal grains with nitrogen before the flowering stage yields a bigger pay-off and better quality. He plans to experiment this year, as long as the weather cooperates.

"We're doing this for more security and to be able to subsidize the farm income," Roger says, adding he hopes someday his children will be the next generation of farmers.

"It really is a good life, and worth hanging on to," adds Terri-Lynn. "There's no better life than harvesting a crop, calving cows and raising kids."



how FCC measured up

Objective: To manage the change process to become "operationally excellent."

Results speak to customers, no matter what the business. And processes are at the heart of every business. FCC embarked on a re-engineering project in January 1996 to examine all aspects of our lending processes.

In order to phase in costs and manage employee ability to absorb change, our goal in 1996/97 was to employ existing technology to make significant short-term improvements to lending and loan administration processes. We created specialized processing centres to support the "behind-the-scenes" journey of a loan from analysis to disbursement. Our regional sales office structure was dissolved and reorganized around strategically located corporate functions. Because we recognize that our presence in farming communities is at the core of our purpose, we have kept the same number of offices across Canada throughout the changes.

Our investment in technology will help us achieve continual customer service improvements in the years to come. We are currently building a Customer Service Centre to give clients another channel to access FCC's services. We are rebuilding our databases and systems to enable staff to answer customer account inquiries with greater speed and accuracy, and tailor our services to individual needs.

Each change is designed to free up field staff from administrative duties, allowing them to spend more time with clients, while retaining the authority to manage each account personally.

Managing the change process, and maintaining the high standard of personal service our clients expect, has been a real challenge. Everything from moving 65,000 files, involving employees in redesign and providing cross-country training has taken place during a very short period of time. Although there have been a few incidents where we could not deliver services in the time frames our customers

> "Everything we are changing has to pass one test: will it deliver the results that the customer wants?"
>
> *– Russ Holm, Executive Vice-President, Operations*

are accustomed to, we have been able to keep such occurrences to a minimum. The patience and understanding shown by our loyal customers in these situations has been greatly appreciated. The changes are being closely monitored. We are actively seeking feedback from field staff regarding what works well and what requires improvement.



"Today's customers want to deal with somebody who knows them and their business and has flexible products, services, delivery channels and competitive prices." *Don Jackson, Vice-President, Marketing & Communications*

1967



Number of Loans Approved 11,238

Amount of Loans Approved $209 million

Average Amount of Loan $18,600

Objective: To develop marketing strategies that promote portfolio growth in order to achieve financial objectives.

The click of a mouse. That's all it takes to access financial markets on the other side of the world, borrow funds or purchase equipment. Today's customers demand immediate service with instantaneous results.

Marketing involves the transfer of goods and services to our customers. Ideally, every decision at FCC should be made with consideration of how it affects the customer.

FCC is undergoing a complete restructuring and transformation of business processes, to enhance relationships with customers by giving them service when and how they want it. That may mean a call from the field, completing transactions over the phone or through the computer in the middle of the night, or a personal visit from an FCC Credit Advisor to discuss new plans.

A formal evaluation of sales training offered to staff in 1995/96 showed that progress has been made towards growing a market culture at FCC, with the goal of providing the right products and service to the right customer at the right cost. A new marketing research division will actively seek feedback from our customers and the agricultural industry on FCC products and services, to ensure we are meeting and exceeding customer expectations.

Objective: To develop an effective human resource strategy designed to provid employees with the training and support needed to achieve corporate objectiv

FCC's human resource strategy ensures an environme where employees receive the training and support the need to provide excellent customer service.

A thorough review of our compensation system culminated in the development of a new system that will better reward and encourage the results and behaviors that the Corporation needs to serve clients. The new system, approved by FCC's Board of Directors in January 1997, features performance rewards based on individual, team, and corporate performance.

"Investing in employees to help them realize their full potential is essential to the achievement of corporate objectives."

– Janet Wightman, Assistant Vice-President, Human Reso

The organizational changes undertaken in 1996/97 challenged employees, as they adapted to new work processes, structure and technology.

A Transition Team formed early in the restructuring process has ensured regular staff communication and feedback. Written communication, an employee

line and face-to-face meetings between managers
l staff in the new structure kept staff informed
he changes progressed.

ff is learning the new processes through ongoing
hnical training, which includes a certification
gram in the skills needed to work with the new
n accounting system. Education on managing
nge and developing personal resilience is helping
f with their transition to new systems and new
responsibilities.

gional office staff was the first group to be offered
porate-wide career development training as it
s most affected in the Corporation's restructuring.
nagers received training in coaching employees
ough career development. Participant feedback
s positive and the program will continue to be
ered in the next fiscal year to all employees.

bjective: To achieve a
te of return on equity to
nsure the Corporation's
ngoing financial viability.

ongside client-driven growth, FCC's portfolio
ality and financial performance continued to
prove during 1996/97. FCC's return on equity
OE) of 9.3 per cent continues to be strong with
e five-year average equalling 9.8 per cent annually.
r fiscal 1996/97, FCC exceeded its ROE target
6.5 per cent, and is well above the shareholder's
ng-term cost of capital.

This strong ROE has not been achieved at the expense of other financial goals. Indeed, FCC surpassed its lending projections, improved the quality of its loan portfolio and achieved a better-than-planned capital structure in spite of increased expenses necessary to position the new FCC service channels.

Progress continued ahead of plan toward the $5 billion in revenue-generating assets by March 31, 1999. The loan portfolio, FCC's largest asset, grew to $4.7 billion. FCC's 1996/97 net income of $40.6 million marks seven consecutive profitable years. This solid performance helped to achieve a debt-to-equity ratio of 10.0:1, compared to the target of 10.6:1.

FCC's financial progress is in line with its long-term goal of financial sustainability. In 1996/97, FCC's staff made a record number of loans. We were able to manage our loan margins at levels that had not been seen in six years. We also increased the cost effectiveness of our risk management strategies and sought less costly sources of funds through enhanced structured debt issues such as our equity-index linked notes. FCC's status as a Crown corporation provides us with a strong credit rating comparable to the Government of Canada's domestic credit rating which is attractive to investors worldwide.

> "Liquidity and long-term financial backbone are necessary to support significant service delivery improvements: FCC has that."
>
> *– Marie-José Bourassa, Vice-President & Controller*

Canada – the "promised land" for agriculture

1908 The government embarked on the "promised land" campaign to sell Canada as a land rich with resources, prime for agriculture. Experimental farms were established to demonstrate that farming could be profitable. The phenomenal growth in agriculture in Manitoba, Saskatchewan and Alberta was encouraged by a steady demand for wheat and flour in western Europe. Harvests were abundant. Wheat prices reached $2 per bushel during World War I – equivalent to $20 today.

1927 *Canadian Farm Loan Act* received royal assent in response to farmers' need for long-term credit. The Canadian Farm Loan Board (CFLB) was established in 1929.

1929 to 1939 The Great Depression grips farmers

"In the large majority of cases where foreclosure proceedings were instituted during the year, borrowers had already, through the action of other creditors, lost the stock and equipment necessary to operate the mortgaged farm property successfully, or, due to a heavy accumulation of other debts, had felt themselves unable to continue with farming operations."

– 1932/33 CFLB Annual Report

1934 The *Farmer's Creditors Arrangement Act* was introduced to manage farm debt.



Number of Loans Approved **4,035**

Amount of Loans Approved **$114.7 million**

Average Amount of Loan **$28,430**

With the approaching end of the Commodity-Based Loans Program, it made good business sense for many of our customers to take advantage of the gradual decrease in major commodity prices and opt out of the program before maturity. In accordance with our Terms of Agreement with Agriculture and Agri-Food Canada, early conversions have accelerated income recognition for FCC to the tune of $19.6 million in 1996/97.

These enhanced revenue streams have been used to create value for FCC's staff and customers, by funding the corporate restructuring and the acquisition of new technology, which cost approximately twice what had originally been estimated. Changing an organization's delivery structure without service disruption is a daunting task. Fortunately, our favorable financial position gave us the freedom to pursue this organizational change at the pace required in 1996/97.

Objective: To be the employer of choice by making communication everyone's business.

Communication is an integral part of FCC's business relationship-building philosophy. More than just selective information exchange, communication means sharing business activities and news with staff in a timely, efficient and meaningful way.

Achieving this kind of open communication presents a particular challenge in an environment where nearly 800 staff work in some 100 offices in two official languages across Canada. To help achieve this goal, we have begun incorporating communication goals into the business objectives of individual divisions and managers' performance plans.

> "For communication truly to be everyone's business, it must permeate the very culture of FCC."
>
> *– Kellie Stevens, Assistant Vice-President, Communicat*

FCC implemented a cascading communications program in 1996/97. Managers are encouraged to communicate news to staff in face-to-face meetings to facilitate two-way dialogue. The Communication division regularly conducts cross-country telephone surveys to measure awareness and understanding levels, and to record questions and concerns. Active soliciting employee feedback has allowed manageme to respond quickly to concerns and information gaps

To improve understanding of the changing corporate environment and to support verbal communication, FCC introduced a new publication, *Discover*, which devoted entirely to issues associated with restructurin the Corporation.

With the goal of further enhancing communication, managers of all corporate functions now participate on the Corporation's Senior Management Team.

Media Coverage

FCC's media exposure for the 1996/97 fiscal year more than doubled the level attained in 1995/96. Advertising value jumped 16 per cent, rising to a level of nearly $790,000, and audience exposure increased 125 per cent, reaching nearly 64 million newspaper readers.

Coverage of FCC initiatives and performance was substantially higher profile this year than last, mainly due to pick-up in wider-circulation dailies. Print and broadcast coverage featured a variety of major issues throughout the year, including FCC's role in the 4-H Scholarship Awards Program, the federal budget announcing a funding boost, the Corporation's mandate, the farmland values report and the significant increase in FCC's lending volume.

In addition to raising its media profile, FCC improved the quality of its coverage, registering a high level of positive coverage and very little criticism, especially in the last quarter.

Objective: To work with other government agencies and departments to fulfil FCC's public policy role.

In fulfilling the Corporation's role as an agricultural lender, FCC serves as a delivery vehicle for government programs to enhance Canadian farms, agribusiness ventures and farming communities.

In spring of 1996, FCC became an eligible financial institution under the Net Income Stabilization Account (NISA) program of Agriculture and Agri-Food Canada. Under NISA, farmers were given until May 31, 1997 to choose an institution to hold their NISA accounts.



Capital Injection

The federal budget of February 18, 1997 announced a $50 million capital injection to FCC. The Corporation is required by the *Farm Credit Corporation Act* to keep its debt-to-equity ratio at or below 12:1. The capital injection will strengthen FCC's capital structure and enable the Corporation to lend an additional $400 million at a time when it is faced with ever-increasing demand for its services. By investing an additional $50 million in FCC, the government has shown its support for what the Corporation is doing to enhance access to capital for primary producers and agribusinesses to help them get started, grow and diversify.

"Strength in rural Canada is vital to our national well-being. Agriculture must have access to a modern and tailored portfolio of financial tools and services, to add value, [illegible] and grow." – *Ralph E. Goodale, Minister of Agriculture & Agri-Food*

FCC becomes the default financial institution on June 1, 1997. As of March 31, 1997, FCC had received $17.6 million dollars in NISA contributions from 2,656 clients.

FCC will continue to develop new business alliances with other private and public sector organizations to enhance the Canadian farmer's access to financing.

"FCC is committed to sharing information with industry groups and the federal government to support strategic and policy decisions that will benefit Canadian agriculture and provide support where gaps exist."

- Max Pierce, Executive Vice-President & Chief Economist

Post-Depression Mind-Set Presents Challenge for Growth

"One has to keep in mind that at this period in time, society had a very different outlook on the borrowing of money. It was considered more or less sinful for an individual to borrow on any scale. Appraisers had to be very careful because if the neighbors learned that the Farm Loan Board appraiser had called on a farmer, he was automatically considered to be in serious difficulty."

– John McIntyre, former CFLB appraiser & former FCC Loans Officer.

World War II Recovery begins; need for long-term credit prompts action.

1944 to 1951 Veterans Land Administration provides most important single source of farm credit.

FCC

to Dynamic Marketplace Gaps

"FCC is successful in identifying financing gaps in the agricultural sector because of its unique focus on agriculture," says Max Pierce, Executive Vice-President & Chief Economist. "In the delivery of financial services, FCC complements the private sector through the identification and servicing of dynamic marketplace gaps."

Fact FCC specializes in agriculture-related lending. Our staff and our organizational culture are oriented toward agriculture.

Fact FCC focuses on innovative products geared specifically for agricultural clients.

Fact FCC maintains a continuous lending presence in agriculture in good times and in bad.

Fact FCC focuses on the needs of smaller family operations.

Fact FCC has a clear focus on improving access to capital for the agricultural industry.

Fact FCC exerts a competitive influence in the financial marketplace for the benefit of farmers and agribusinesses.

Fact FCC serves a public policy role as a delivery agent for government programs targeted toward agriculture.

A gap in the marketplace can be defined as the interval between perceived and realized opportunities. Closing a gap enables a plan to become reality. Canadian agriculture is dynamic and often, as current gaps are addressed, new ones emerge.

Size Gap *Costs of preparing and assessing business plans for financing proposals are much the same for small transactions as large ones; therefore, small commercial loans are often seen as unprofitable.*

It is evident FCC's focus is the family farm, considering over 80 per cent of FCC accounts are less than $100,000. Through re-engineering, the Corporation is improving service delivery to better serve smaller operations.

Knowledge Gap *A lack of knowledge about a sector or specific operation often results in a reluctance to finance low-asset firms developing new technologies or new export markets.*

FCC has a high degree of agricultural expertise and is, therefore, better equipped to provide its clients with up-to-date industry knowledge. Farm clients have singled out FCC as an institution knowledgeable about their financial requirements and prepared to work with them to address their needs.

To decrease the knowledge gap between other financial institutions and the agricultural sector, FCC has entered into alliances with government and private lenders.

The Corporation also helps the government address the knowledge gap by delivering the Business Planning for Agri-Ventures program which is designed to assist operators with the necessary business planning expertise in the development of a new enterprise.

Flexibility Gap *Flexible repayment terms are often not available to match the irregular cash flow of businesses.*

Because of its seasonal nature, the agricultural industry requires added flexibility in loan products and terms. In businesses where sales are concentrated in certain periods of the year – such as greenhouses, aquaculture operations and cattle feeder operations – FCC works with the client to match loan payments with the operation's cash flow. The most recent example is FCC's Plant Now-Pay Later loan, which delays payments during the developmental stages of grape production.

Risk Gap *Lending institutions are often unwilling to provide high-risk loans, even at interest rates which reflect the higher risk.*

As FCC specializes in agriculture, and has staff who are particularly knowledgeable about this sector, the Corporation has developed products to support risk management. FCC's Shared-Risk Mortgage, which cushions the impact of volatile interest rates and FCC's participation in the Cattle Options Pilot Program (cOPP) are two examples. FCC, due to its specialization, is also in a strong position to assess the risk of various agricultural operations and therefore can lend to an enterprise which may be deemed "higher risk" by the financial marketplace.



Alliances and Partnerships

Joint initiatives are becoming increasingly important in today's business world. By combining forces and pooling resources, organizations avoid duplication of services, share the risk associated with financing large-scale projects and devote more energy towards developing new services.

Over the past few years, FCC has built a number of alliances with public and private sector organizations for the greater benefit of mutual clients. FCC shares office space and resources with the Alberta Agriculture Financial Services Corporation, and offers feeder and equipment financing programs through dealers, co-operatives and other suppliers.

During the past year, the Senate Standing Committee on Banking, Trade and Commerce made recommendations after studying "how the federal government's financial institutions, as a whole, function in relation to the private sector, the appropriate role for them to play and the kind of gaps that they are endeavoring to fulfil."

Among others, a recommendation was made to merge FCC with the Business Development Bank of Canada (BDC), and to merge the Canadian Commercial Corporation (CCC) with the Export Development Corporation (EDC).

The government's response noted that it chose to realize the shared goal of improved client service and to minimize overlap or duplication by focussing on customer needs rather than on institutional reform. These goals would be reached through increased collaboration among institutions and regional agencies. To ensure progress continues in this direction, the government established the Council of Crown Financial Institutions.

FCC and BDC have since partnered to offer joint financing to a number of agribusiness and rural development initiatives, and have established a customer referral network.

Aquaculture Operation

Catching Headlines



A family-owned aquaculture company, Ross Island Salmon, made headlines this year when owner Ken Brown travelled to the mainland to deliver a $250,000 cheque to the FCC office in St. George, New Brunswick.

"We would probably have had to go in with a large company and lose control. That is why we are here today," Brown told the reporter. "We want to thank these people."

Brown started the business in the fall of 1993 with 8,000 fish. The initial venture was funded by a bank, but after the first $500,000, the company was unable to obtain further financing to expand.

That was when Brown visited Ed Giles, FCC Credit Advisor. In 1995, the company went to FCC to add two 100-metre cages. The operation has grown to 320,000 fish. With the help of the Fisheries and Oceans Biological Station in St. Andrews, Brown is diversifying into sea urchins for export to Japan.

management discussion & analysis

Operating Environment

In a rapidly changing world, ther are two constants: technological innovation and customer service

In an intensely competitive environment, driven by demands for consumer-oriented products, today's successful farmers not only produce agricultural product, they spot trends, seek opportunities, and explore markets.

Information available through technology has opened up possibilities, but it has also increased competition. The window of opportunity can be small; farmers must be able to turn on a dime as they move their product from the farm to the table. And they must turn at exactly the right time.

As an agricultural lender and an agent of public policy for the Canadian government, FCC is challenged by the same operating environment as the agricultural industry. We strive to shape and influence the global offering of financial services in Canada and provide farmers with the tools to meet their objectives.

> "In 30 years, I've never seen a time when there have been more opportunities in agriculture than today."
>
> *Russ Holm, Executive Vice-President, Operations*

Several factors are contributing to this explosion of opportunities. World population is expected to double by the year 2020, creating an increased demand for food production. Experts estimate that world cereal production must increase by 2.5 per cent per year to keep pace with population and consumption patterns. Biotechnology will play a role in plant and livestock production to meet the demands for food production, as well as for the creation of "designer" foods, such as red pork for the Asian market.

Agri-food exports have risen from $13.3 billion in 1993 to $17.3 billion in 1995. The Minister of Agriculture and Agri-Food has set a goal to increase exports to at least $20 billion – or 3.1 per cent of the total world agri-food trade by the year 2000. Canada requires exports of $23 billion to achieve its traditional share of agricultural exports.

Bulk commodities continue to be the main thrust of Canada's exports, accounting for 72 per cent of total exports in 1995 with processed and value-added products accounting for the remaining 28 per cent. As a country, we must aim to increase the percentage of value-added exports compared to bulk commodities.

Cash crops make up the largest portion of FCC's $4.7 billion loan portfolio, followed by dairy, beef and hogs. Crops and dairy are expected to hold the dominant share of new lending.

> "A lot of changes have occurred in the agricultural industry – projection suggest the sector will become mo involved in value-added products.
>
> *– Terry Craig, Vice-President, Risk Managem*

In This Section ...

- Operating Environment p.12
- Operating Results p.16
- Financial Performance p.22
- FCC's Outlook p.27
- Treasury Management p.30

espite all these changes, it is interesting to note
at the vast majority of our lending is still to tradi-
onal agriculture. For example, our largest loan is to
family-owned farm operation in western Canada.

ecent changes to Canadian agricultural policy
ave led to significant structural changes and
esented new opportunities for exploration:

- the elimination of the *Western Grain Transportation Act* in 1995;
- branch-line consolidation which will see the number of prairie elevators decline from a few thousand to approximately 300 by the year 2000, to be replaced with inland grain terminals; and
- Feed Freight Assistance elimination.

The agricultural sector is in a state of transition,"
ys Holm. "In Canada, as some support programs
ave ceased, primary producers are looking to the
orld market to identify new opportunities."

he share of value-added products in world trade
expected to increase from 42 per cent in 1990
50 or 60 per cent by the year 2000. This trend
eans that in the future, entrepreneurial farmers
ill delve into processing, packaging and exporting
ne production of those who remain in the primary
oduction sector. FCC must provide service to
oth primary producers and to those who add
alue to their products.

o ensure that both traditional and emerging
arkets receive the full attention and support that
ey require, the Corporation's lending operation
as divided into two divisions: Farm Financing
nd Agribusiness and Agricultural Alliances.

The Farm Financing division represents a majority of FCC's resources, including about 450 front-line staff who work with customers directly, and is devoted to traditional lending, such as cash crops, dairy, beef, and hogs.

"Our Farm Financing division focuses on traditional customers, the primary producers, who continue to be the cornerstone of Canadian agriculture and central to our purpose," says Marshall Stachniak, Vice-President, Farm Financing.

FCC created a second lending division, Agribusiness and Agricultural Alliances, devoting about 20 staff to serve the unique needs of the expanding value-added and diversification sector.

The new Agribusiness and Agricultural Alliances division is geared toward lending for the refining of primary agricultural products, and developing alliances with other organizations to ensure the future of the primary producer in Canada.

"For the primary producer to do well, value-added and agribusiness has to be vibrant and growing," according to Terry Kremeniuk, Vice-President, Agribusiness and Agricultural Alliances.



- *Alexander, Eugenie, and Larry Malone, on their farm near Shaunavon, Saskatchewan, 1958.*

1945 *Farm Improvement Loans Act (FILA)* encourages banks to enter farm lending.

1956 Farm organizations criticize CFLB policies and credit facilities.

1959 *The Canadian Farm Loan Act* repealed to make way for long-term mortgage credit.

July 18, 1959 – Farm Credit Act replaces CFLA

"... from the point of view of the long-term welfare of agriculture I believe this is one of the most important Bills which has been considered by the Canadian Parliament. The importance of credit used by farmers as a supplement to their own capital has increased almost continuously during the last 50 years."

– *D.S. Harkness, Minister of Agriculture on the passing of the Farm Credit Act.*

Brigadier General T.J. Rutherford known as "Mr. Farm Credit"

"It is our duty to ensure that the Canadian farmer is well informed about the new credit services which the federal government has placed at his disposal. When a farmer comes to you with a request for a loan, your first job is to help him to discover whether or not he is eligible. You may be the first person with whom the applicant has had the courage to discuss credit ... explain to him the difference between credit and debt. FCC credit is an investment for profit. Debt is money owing on a dead horse – all the difference in the world!"

– *Brigadier General T.J. Rutherford who served as FCC's first Chairman from 1959 to 1962.*

for the Community

Lasting relationships go far beyond pro

margins and bottom lines. Lasting relationships are built on giving back to the communities in which we live and work.



"The award will greatly help broaden my studies, and is a significant gesture of faith to the Canadian 4-H program. The establishment of this award has done a great deal to promote excellence in the youth participating in the 4-H program, as well as raise the status of 4-H in the eyes of others."

• *Matthew Clark, of Baden, Ontario, is in his third year of a five-year engineering program at the University of Waterloo and was an exchange student at the Technical University at Braunschweig, Germany.*

Recognizing Excellence Across Canada

Every year, FCC sponsors agricultural and business-related events from British Columbia to the Maritimes such as the Western Canadian Wheat Growers Annual Meeting, National Dairy Convention, Canadian Farm Women's Network Conference, Canadian Cattlemen's Association and the Canadian Federation of Agriculture. At the Royal Winter Fair in Toronto, FCC sponsors a public speaking competition for Canadian youth. During 1996/97, we contributed $375,000 to community events, education and youth.

As a major sponsor of such shows as the Farm Progress Show in western Canada and the Western Canadian Agribition, FCC recognizes excellence in the farming community. FCC purchased the Reserve Grand Champion Junior Steer entered at Agribition 1996 by 23-year-old Jennifer Fenton of Irma, Alberta; the Grand Champion Forage Sheaf created by Ryan Peters, 14, of Regina, Saskatchewan; and the prize-winning poinsettia grown by Parkland Greenhouses of Yorkton, Saskatchewan.

"By purchasing these items, we show our appreciation for those segments of the industry," says Wès Gordon, Assistant Vice-President, Market and Product Development.

FCC partnered with 4-H and FRAQ in Québec to create the FCC 4-H Scholarship Program which provides 16 scholarships of $1,000 to rural youth pursuing post-secondary education.

"The word 4-H in rural communities is pure gold and we are privileged to be a part of that, working with those who will be tomorrow's leaders," says Ted Young of FCC's Guelph office, and President-Elect 1998, Canadian 4-H Council.

"Farm Credit Corporation has taken a leadership role in support of educational development. It is certain that the impact of our partnership will be realized as graduating students move forward to take on leadership roles in business and community development."

– *Kelly J. Lendsay, MBA, Director of Aboriginal Business Programs, The Scotiabank Directorship, College of Commerce, University of Saskatchewan*

• *Terry Craig, Vice-President, Risk Management presented a cheque to Jennifer Fenton after FCC purchased the Reserve Grand Champion Steer.*



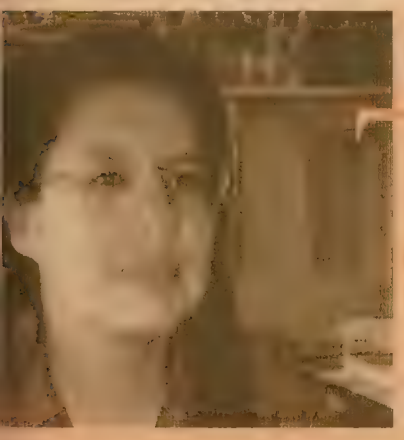
Being Part of the Solution

FCC employees give generously in time, cash and payroll deductions to support the United Way and contribute to local community charities. In Moncton, for example, FCC staff members contribute food and necessities to families in need and raise money for a school breakfast program. Corporate Office employees in Regina take part in a Christmas Adopt-a-Family Program to extend a helping hand during a time that is difficult for some, giving gifts and a Christmas hamper. In addition, FCC donated computers to five single-parent families to help them with their studies.

Beyond the doors of FCC, our staff are out in their communities, to build strong communities and strong leaders of tomorrow.



- *FCC Vice-President & Controller, Marie-José Bourassa, presented a cheque of $3,000 to students at Monseigneur de Laval, a French-language school in Regina.*



Two Worlds Bridging

Linda Okanee envisions a bridge that is both solid and flexible. It will be constructed of experiences from the past, knowledge of the present and a vision of the future. Its path will be paved with education and cultural understanding.

Okanee, a 33-year-old from Thunderchild First Nation in Northern Saskatchewan, is one of 20 students who entered the premier offering of the First Nations Master of Business Administration Program at the University of Saskatchewan in Saskatoon, to which FCC donated $50,000.

The MBA program is designed to provide a path that will lead Aboriginal business managers and leaders to future roles both in Aboriginal and non-Aboriginal communities. Okanee believes such a path is crucial to Aboriginal business development and leadership.

"If I'm going to be an Aboriginal people leader, I don't want to lead them down the wrong way," she says.

"My father told us the key to success is education. You can help people to become self-reliant, not only as individuals, but as a community."

management discussion & analysis



Number of Loans Approved **7,066**

Amount of Loans Approved **$558.2 million**

Average Amount of Loan **$78,995**

Operating Results The year ending March 31, 1997 has been another solid performance for Farm Credit Corporation, producing strong financial results.

FCC reports a 15 per cent growth in loan portfolio, record loan approvals and disbursements, and products that continue to meet the needs of the changing agricultural marketplace. The management discussion and analysis will identify key operating results and compare them both to last year's performance and to corporate targets. Trends that significantly impacted on operations are also discussed.

Lending Activity

Volume of Business

During 1996/97, FCC approved a record 12,910 loans with a net value of $1.4 billion. This represents a 27 per cent increase in the number of loan approvals and a 36 per cent increase in the dollar value compared to 1995/96.

The average loan size was $108,700 as compared to $101,300 last year.

These results are a reflection of:

- the strengthened agricultural economy;
- strong commodity prices;
- a cash injection from Western Grain Transition Payments Program (WGTPP);
- interest rates which are at a 40-year low;
- a continued trend towards diversification;
- long overdue retooling for producers, replacing outdated equipment; and
- an optimistic outlook for the future of agricultur

The majority of FCC loans are disbursed within three months of approval, and only as clients require the funds. Net loan disbursements totalled

Table A1

1996/97 Key Lending, Real Estate & NISA Targets

$ Millions	Actual	Plan	% Variance from Plan
Net loan disbursements	1,342.9	1,036.8	30
Loan renewal rate (%)	94.0	93.0	1
Loans receivable	4,687.0	4,512.3	4
Loan loss factor (%)	1.86	2.06	(9)
Arrears	29.4	32.6	(10)
Real estate portfolio	139.6	151.4	(8)
NISA portfolio	17.6	–	–

.3 billion, representing a 44 per cent improvement er 1995/96, and significantly exceeding the target tablished in the corporate plan by 30 per cent.

3C offers renewals on maturing loans to all rrowers who demonstrate an ability and willing- ss to repay debt. During the year, extensions re offered to 99 per cent of FCC clients whose an term matured. Of clients offered renewals, per cent chose to remain with FCC, slightly ceeding our target of 93 per cent. These renewals presented 7,347 loans valued at $551.2 million.

FCC achieved an interest margin/spread* of 1.80 per cent on new and renewed lending compared to our target of 1.75 per cent.

*based on transfer pricing assuming 100 per cent funding at benchmark rates.

he Corporation views this high percentage of newals, virtually unchanged from last year, as a easure of client satisfaction and an indication that is delivering products and services that meet ie needs of the agricultural community.

oan Product Selection

uring 1996/97 as in 1995/96, FCC clients were irly evenly split in the selection of lending terms. f new and renewed loans, 46 per cent of our clients hose an interest rate term of five years or more, hile 54 per cent chose a term of less than five ears. Management believes this reflects differing iews on future interest rate trends.

s in previous years, lending activity was dominated y the traditional cash crop and dairy enterprises. Ve serviced a greater variety of enterprises, including quaculture and value-added processing.

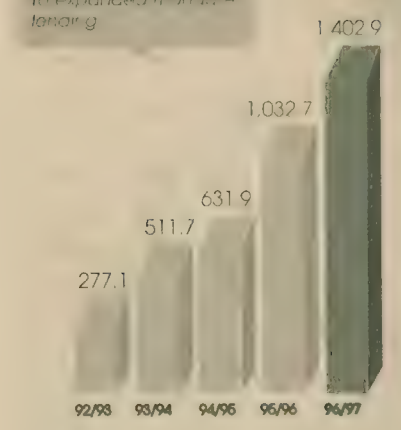
xpanded Mandate Lending

CC now serves a broader scope of agriculture-related nd value-added ventures, as a direct result of the 1993 expansion in mandate. The expanded scope has not detracted FCC from supporting the primary agricultural producer. In 1996/97, 97 per cent of the Corporation's lending was to primary agriculture, consistent with the previous year. In 1996/97, expanded mandate lending represented 48 per cent of new lending, compared to 47 per cent last year and 38 per cent in the fiscal year 1994/95. Expanded mandate lending supports all FCC traditional (cash crops, dairy and commercial livestock) and non-traditional (aquaculture, abattoirs, seed cleaning and other value-added) enterprises.

Expanded mandate activity has occurred predominantly in four provinces: Alberta, Saskatchewan, Ontario and Québec. This represented 80 per cent of expanded mandate loan applications and 77 per cent of dollars approved and is consistent with the overall lending patterns in these provinces.

FCC continues to receive applications for financing for value-added agricultural ventures which cannot be directly funded since they do not fall within the scope of the current mandate. To facilitate service to such clients, FCC pursues joint ventures, partnerships with other credit providers and alliances. For example, our alliance with a feeder cattle operation has allowed farmers to obtain short-term financing right on the auction floor. These agreements contribute to the strength and economic diversification of the Canadian agricultural community.

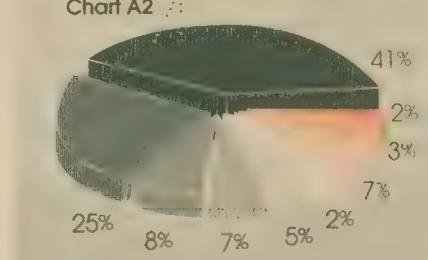
Chart A1



NET AMOUNT OF LOANS APPROVED
($Millions)

Lending to cash crop and dairy enterprises comprises 66% of current-year lending.

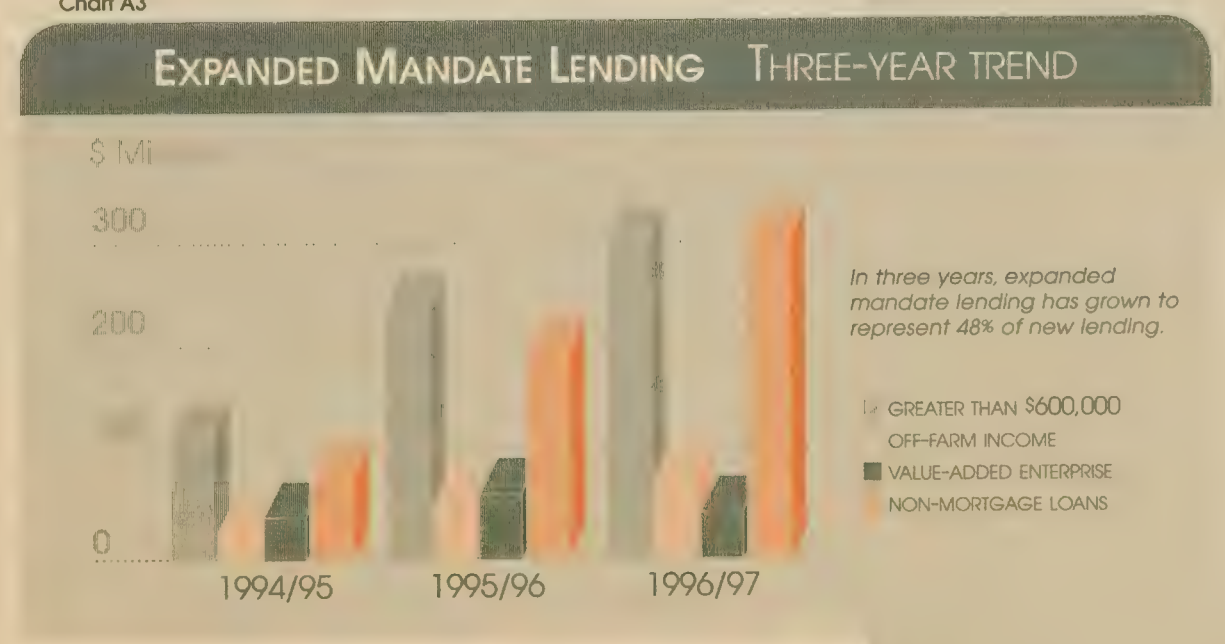
Chart A2



CURRENT YEAR LENDING BY ENTERPRISE

- CASH CROPS
- SPECIAL TRADITIONAL
- VALUE ADDED
- OTHER
- MAPLE SYRUP
- POULTRY
- HOGS
- BEEF
- DAIRY

Chart A3



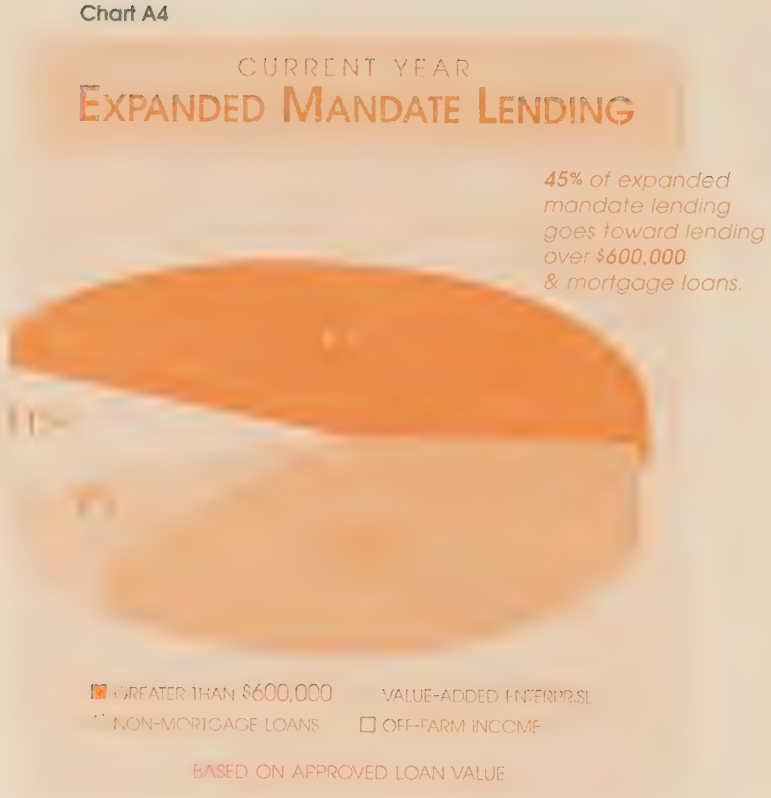


Number of Loans Approved 5,830

Amount of Loans Approved $761.0 million

Average Amount of Loan $135,763

Chart A4



Loans Receivable Portfolio

The 1996/97 fiscal year was the fourth consecutive year of portfolio growth, up $620.7 million from $4.1 billion at March 31, 1996. The March 31, 1997 loans receivable portfolio is at $4.7 billion, representing a 15 per cent year-over-year increase and surpassing FCC's target by four per cent.

Table A2

Loans Receivable Portfolio at March 31

$ Millions	1996/97 Number	1996/97 Amount	1995/96 Number	1995/96 Amount
British Columbia	1,805	246.9	1,781	208.2
Alberta	7,696	605.0	7,176	491.8
Saskatchewan	21,336	1,066.9	19,438	966.7
Manitoba	7,718	431.0	7,303	392.9
Ontario	15,409	1,382.6	14,368	1,204.2
Québec	7,786	640.5	6,982	533.4
New Brunswick	1,837	143.8	1,755	125.9
Nova Scotia	517	61.4	353	43.5
Prince Edward Island	1,024	88.3	930	80.0
Newfoundland	190	20.6	164	19.7
National	65,318	4,687.0	60,250	4,066.3
Allowance for loan impairment		165.4		143.7
Loans receivable, net of allowance for loan impairment	65,318	4,521.6	60,250	3,922.6

GOAL #2

Portfolio growth is $620.7 million. Total grow of interest-bearing assets is $564.0 million compared to our target of $199.7 million.

The growth of the loans receivable portfolio during the past two years has been fairly dramatic, and has been responsible for keeping FCC on track towards reaching its target of $5 billion in revenue-generating assets.

This success is due to several factors:

- ongoing efforts to nurture relationships with existing clients and to establish relationships with new FCC customers;
- mandate expansion which allows the Corporatio to finance a wider range of projects; and
- continuing strength and diversification of the Canadian agricultural community.

This level of lending activity has resulted in FCC increasing its market share to 15.8 per cent of the total Canadian agricultural debt market valued at $25.8 billion by Statistics Canada for the year 1995/96. This is an increase of 1.5 per cent from last year.

The market value of Canadian agricultural debt has remained quite stable over the years since 1986/87 when FCC held 21 per cent of the $24 billion of tota debt outstanding. The decline in market share was due to legislative restrictions and the use of internal resources to resolve debt problems, brought about by a difficult economic environment and depressed commodity prices.

Allowance for Loan Impairment

The allowance for loan impairment is management's estimate of probable credit losses (established as described in note 2 to the financial statements) embedded in the loans receivable portfolio at the end of the year. The allowance is comprised of:

- a specific component to value loans specifically identified as impaired at their estimated realizable amount; and
- a general component in respect of loans for which impairment has not been specifically identified.

ne allowance for loan impairment at March 31, 997 was $165.4 million and reflects a $21.7 million 15 per cent increase from $143.7 million at arch 31, 1996. The percentage of the allowance total loans receivable of 3.5 per cent remains sentially unchanged from the previous year. ne related charge for loan impairment was 4.0 million compared to $12.1 million in 1995/96.

ortfolio Quality

redit risk is an inherent part of FCC's business. udent lending practices are followed to ensure that e credit quality of new lending is not sacrificed to crease lending volumes. Such practices are key to e long-term viability of FCC and ensure that the orporation is not exposed to an unacceptable level credit default risk.

CC uses a risk factor to measure potential loss nd manage risk on new lending entering the ortfolio. The risk factor for loans approved in 996/97 is 1.86 per cent of the net value of those ans. This compares favorably to a risk factor of 01 at March 31, 1996 and to FCC's 1996/97 rget of 2.06. The risk levels vary by enterprise. nprovement over the previous year is largely ue to greater diversity in the loan portfolio nd the overall improved economic health f the agricultural economy.

ortfolio loan quality is also assessed by nonitoring the level of arrears.

wo key measures of arrears are the total as a per- entage of loan principal not due (PND) and the ging of arrears. Both have steadily improved over ne past five years. Total arrears, which are defined s the principal and interest payments that are ast due, are $3.2 million below plan, closing at 29.4 million, representing 0.6 per cent of PND t March 31, 1997. This is a slight improvement ver last year's 0.7 per cent.

This reduction is partly due to the improved economy but also reflects FCC's commitment to work with clients in developing flexible and reasonable repayment options in times of difficulty.

Arrears by geographic region reveal that the provinces of New Brunswick, Newfoundland and British Columbia possess the highest level of arrears as a percentage of PND, while the provinces of Québec, Saskatchewan, Manitoba and Nova Scotia demonstrate the lowest.

The difference in the level of arrears between geographic regions is not significant. Arrears are well managed in all areas of the country with no alarming trends evident in either of the geographic or enterprise categories.

GOAL -3

Our new lending YTD carries a loan loss rating of 1.86 per cent compared to last year's 2.01 per cent. That's quality improvement.



Chart A5

Portfolio quality is assessed by monitoring the level of arrears

ARREARS
($Millions)



Roadblock Becomes a Right Turn

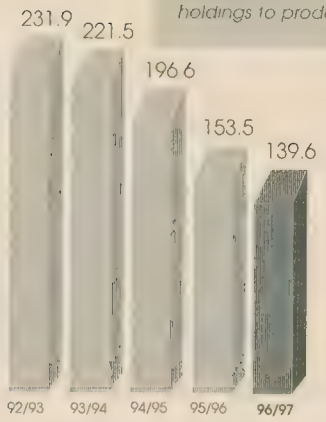
Jean-Marie Fortin has been in the blueberry-producing business for more than 20 years, growing, purchasing, and shipping blueberries to a freezing plant in Maine, U.S.A. for local markets. Seven years ago, he hit what some would have considered a roadblock.

The freezing plant could no longer process his blueberries. Fortin decided to diversify, building his own freezing plant with help from FCC.

His company, Bleuet Mistassini, now employs 250 seasonal workers and an average of 70 year-round workers and handles 35 per cent of the blueberry freezing in Québec.

Chart A6

FCC's reduction of real estate holdings is consistent with its commitment to return holdings to producers.



Real Estate Portfolio
($Millions)

Lease and Real Estate Activities

FCC's Agri-Land division manages the land portfolio with the goal of leasing and eventually returning it to farmers, ideally former owners.

FCC has completed year three of the five-year national lease-back program for all Canadian farmers which allows participating farmers to buy back their land at any time.

At March 31, 1997, 96 per cent of the land held by FCC was leased, an increase from the 94 per cent leased at the end of 1995/96. Of those leased acres, approximately 96 per cent were leased back to former owners.

FCC has demonstrated its commitment by returning real estate holdings, acquired as part of the loan settlement process, to Canadian farmers.

FCC's sales of 77,582 acres to farmers totalled $17.8 million in fiscal year 1996/97. Although sales this year are significantly lower than last year's sales (218,000 acres for $42.0 million) they are 15 per cent higher than expected.

During the 1996/97 fiscal year, FCC completed its program of sharing the WGTPP payment with farmers. In fiscal year 1995/96, FCC agreed to rebate 25 per cent of the WGTPP payment to its tenants with long-term leases, as well as to pass on 100 per cent of the payment to tenants who purchased FCC-owned property prior to January 1, 1996. Significant sales of land holdings were finalized as a result of farmer response to this initiative. This program has now been completed, with FCC receiving $16.7 million and returning $6.4 million to Canadian farmers.

Of this year's total sales, 77 per cent were to former owners. Sales were offset by acquisitions of $3.9 million during the year which resulted in a closing real estate portfolio of $139.6 million and 823,841 acres. This is a reduction of $13.9 million from the closing real estate portfolio of $153.5 million and 901,423 acres, at March 31, 1996.

Net Income Stabilization Account Program (NISA)

In May 1996, FCC became an eligible participating financial institution for the federal Net Income Stabilization Account (NISA) program.

At March 31, 1997, 2,656 clients had either transferred or invested $17.6 million with FCC. Approximately 85 per cent of clients have their funds in variable-rate accounts, with the rest in fixed-term products of one, three or five-year terms.

FCC's eligibility status under the NISA program originally raised concerns from some financial institutions who perceived this as a possible infringement into their traditional markets. FCC focuses on the underlying link between using these funds from producers to meet their financing needs. By investing NISA funds with FCC the producer is assured that these funds will be put to work within the agricultural community.

In November 1996, the Minister of Agriculture and Agri-Food Canada appointed FCC as the default financial institution for the NISA program. All Fund 1 NISA Accounts not administered by one of the eligible participating financial institutions (including FCC) as of May 31, 1997, will be transferred from NISA Administration to FCC. This will potentially result in transfers of 25,000 accounts with a value of $110 million to FCC by August 1997.

Table A

NISA Portfolio as at March 31, 1997

$ Millions	# of Accounts	Total Value $
British Columbia	60	0.3
Alberta	370	2.1
Saskatchewan	944	6.6
Manitoba	218	1.3
Ontario	940	5.8
Québec	9	0.1
New Brunswick	15	0.2
Nova Scotia	40	0.3
Prince Edward Island	53	0.8
Newfoundland	7	0.1
National	2,656	17.6

Table A4

Geographic Distribution of Arrears as at March 31

$ Millions	1996/97 Arrears	1996/97 *PND	1996/97 % of PND	1995/96 Arrears	1995/96 PND	1995/96 % of PND
British Columbia	2.6	242.8	1.0	2.1	205.7	1.0
Alberta	4.8	588.1	0.8	5.3	474.3	1.1
Saskatchewan	5.0	1,033.9	0.5	8.0	928.9	0.9
Manitoba	2.1	420.9	0.5	2.5	383.4	0.7
Ontario	9.3	1,362.8	0.7	7.5	1,198.2	0.6
Québec	2.1	632.8	0.3	1.5	532.6	0.3
New Brunswick	2.3	139.4	1.6	1.6	123.6	1.3
Nova Scotia	0.3	60.7	0.5	0.3	43.5	0.7
Prince Edward Island	0.7	86.1	0.8	0.4	79.0	0.5
Newfoundland	0.2	20.5	1.1	0.1	20.3	0.5
National	29.4	4,588.0	0.6	29.3	3,989.5	0.7

* *Principal Not Due*

Table A5

Lending Risk and Arrears by Enterprise at March 31

$ Millions	1996/97 Total PND	1996/97 Risk Factor	1996/97 Arrears as % of PND	1995/96 Total PND	1995/96 Risk Factor	1995/96 Arrears as % of PND
Cash crops	2,091.1	1.82	0.8	1,854.7	1.96	0.9
Dairy	1,131.5	0.42	0.2	1,025.9	0.56	0.1
Beef	402.6	1.95	1.6	367.5	1.73	1.5
Hogs	339.2	3.37	0.5	309.2	3.71	0.5
Poultry	240.8	0.26	0.4	203.7	0.46	0.3
Value added	73.7	6.13	0.9	25.9	5.48	0.0
Special traditional	68.5	3.69	0.9	48.7	–	1.0
Maple syrup	41.4	4.37	0.3	19.9	–	0.4
Other	199.2	3.80	0.9	134.0	4.46	0.9
National	4,588.0	1.86	0.6	3,989.5	2.01	0.7

Table A6

Agri-Land Property Holdings at March 31

$ Millions	1996/97 Total # of Acres	1996/97 # of Acres Leased	1996/97 Book $ Value	1995/96 Total # of Acres	1995/96 # of Acres Leased	1995/96 Book $ Value
British Columbia	433	0	0.2	550	112	0.3
Alberta	11,279	8,796	3.7	12,856	11,203	4.2
Saskatchewan	771,187	743,410	123.1	844,014	794,175	134.9
Manitoba	37,274	36,924	8.1	39,935	35,513	9.0
Ontario	2,752	1,981	3.5	3,245	2,870	4.2
Québec	168	0	0.2	79	0	0.1
New Brunswick	191	0	0.2	484	189	0.8
Nova Scotia	548	0	0.6	251	251	0
Prince Edward Island	0	0	0	0	0	0
Newfoundland	9	0	0	9	0	0
National	823,841	791,111	139.6	901,423	844,313	153.5

1989



Number of Loans Approved **1,494**

Amount of Loans Approved **$102.9 million**

Average Amount of Loan **$92,444**

Financial Performance

Net income of $40.6 million for the year ended March 31, 1997 is 55 per cent better than the budgeted amount of $26.2 million, and is slightly higher than last year's net income of $40.4 million. This variance of $14.4 million over budget is a result of earning $23.9 million more net interest income than budgeted, $9.9 million higher net lease and real estate income, and $1.1 million more in other income. These improvements were offset by $10.8 million in higher-than-projected administrative expenses, unfavorable variances of $4.7 million in the charge for loan impairment and $5.1 million increase in income taxes.

Total interest income of $419.8 million for the year ended March 31, 1997, offset by interest expense of $278.1 million, produced net interest income of $141.7 million, which is 20 per cent above plan and a 35 per cent improvement over 1995/96.

This level of interest income was achieved despite lending rates that were on average 61 basis points, or $26.7 million, lower than anticipated on loans.

This unfavorable rate variance was offset by two factors: a favorable volume variance of $12.5 million due to higher-than-planned average loans receivable of $132.5 million; and $19.6 million revenue earned from the early retirement of loans under the Commodity-Based Loans (CBL) program.

Total interest expense of $278.1 million is $24.3 million less than budget. This was accomplished as the Corporation took advantage of the funding opportunities available in a declining interest rate environment and as a result, achieved funding costs that were 75 basis points, $32.5 million less than planned. This favorable variance was offset by an unfavorable volume variance of $8.2 million on average loans outstanding.



Sod turning ceremony for Commercial Alcohols Incorporated

Turning Corn into Fuel

FCC played a key role in financing a $153 million ethanol plant in Chatham, Ontario which will consume 15 million bushels of corn – eight per cent of Ontario's corn production – each year.

Through the National Biomass Ethanol Program (NBEP), which FCC administers on behalf of Agriculture and Agri-Food Canada, the Corporation joined a consortium of financial institutions to provide capital to Commercial Alcohols Incorporated (CAI) for construction of the plant.

The Corporation will provide a $31 million contingent line of credit if the Excise Tax exemption for ethanol is removed.

"The senior lenders financing the plant needed the line of credit through the NBEP to alleviate their tax risk concerns," says John Geurtjens, the account manager responsible for the NBEP in Ontario.

The plant is expected to be running by January 1998. It will produce 150 million litres of fuel ethanol and industrial alcohol, 127,000 tonnes of dry distillers grain used as high protein animal feed and 100,000 tonnes of carbon dioxide for use in food and beverage products. The plant will create 400 direct and indirect jobs during construction and 90 full-time jobs when in operation.

PARTNERING TO BOOST RURAL INDUSTRY

Table A7

1996/97 Key Financial Targets

$ Millions	Actual	Plan	% Variance from Plan
Net income	40.6	26.2	55
Net interest income	141.7	117.8	20
Lease and real estate income	0.4	(2.8)	114
Administrative expenses	84.1	73.3	(15)
Administrative coverage ratio (x:1)	1.56	1.38	13
Administrative expense ratio (%)	1.86	1.66	12
Debt-to-equity ratio (x:1)	10.0	10.6	(6)
Return on equity ratio (%)	9.3	6.5	43

t interest margin for March 31, 1997 was 3.03
cent, significantly above both the corporate plan
get of 2.57 per cent and last year's margin which
2.56 per cent. Had FCC not received the income
n the conversion of the CBL loans, the
interest margin for the year would have been
1 per cent, a solid above-plan performance.

ase and Real Estate Income

March 31, 1997, lease and real estate income was
million, which is $3.2 million higher than plan and
$1.3 million compared to 1995/96. The improve-
nt over budget and over last year's results
ue to higher average lease rates and a reduction
he carrying cost of property due to lower
erest rates.

al 1996/97 was the last year payments will be
eived from the Farm Debt Review Board, which
sed offering concessions effective March 31, 1994.
one time, lease concessions paid to FCC under this
gram were as high as $40 million per year.

ins on the disposal of property are consistent with
increase in farmland values over the past three and
alf years. These gains represent a partial recovery of substantial property write-downs incurred in prior years. For the year 1996/97, gains totalled $6.6 million, down from the $12.2 million earned in 1995/96 when property sales were significantly higher.

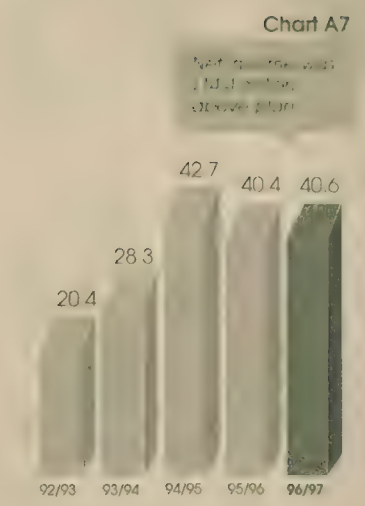
Other Income, Administrative Expenses & Taxes

Other income for 1996/97 amounted to $6.5 million, exceeding last year's results by $1.7 million and surpassing FCC's target of $5.4 million. Comprised mainly of appraisal revenues, recovery of insurance administration costs and service fees, the increase in other income is a direct result of higher-than-predicted lending activity.

Total administrative expenses were $84.1 million for the year ended March 31, 1997 compared to $67.3 million a year earlier. This 25 per cent increase was the result of two factors. First, our ongoing costs of operations increased 11 per cent to help manage a 27 per cent increase in loan approvals. Secondly, the Corporation invested $9.7 million in the first year of a major re-engineering project.

(continued on page 26)

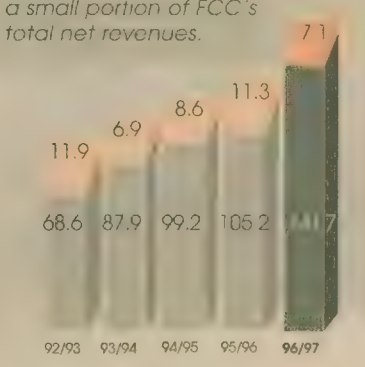
Chart A7



NET INCOME
($Millions)

Chart A8

Lease and real estate income continues to be a small portion of FCC's total net revenues.

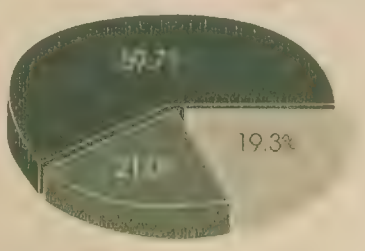


NET REVENUES
($Millions)

■ NII ■ LEASE & REAL ESTATE

Chart A9

The increase in other income is directly linked to higher-than-predicted lending activity.



OTHER INCOME

■ APPRAISAL REVENUES
■ SERVICE FEE REVENUE
ADMINISTRATION COSTS RECOVERED

Table A8

Net Interest Income

$ Millions	1996/97 Actual	1996/97 Plan	1995/96 Actual
Interest income			
Loans receivable	406.4	400.9	357.5
Investments	13.4	19.3	22.0
	419.8	420.2	379.5
Interest expense			
Loans payable	255.9	263.4	240.8
Short-term notes	22.2	39.0	33.5
	278.1	302.4	274.3
Net interest income	141.7	117.8	105.2
Average interest-bearing assets*			
Loans receivable	4,376.6	4,178.3	3,801.0
Investments	301.7	300.3	313.3
Average loans payable*			
Short-term notes	602.0	600.0	480.1
Long-term notes	3,602.5	3,598.0	3,270.3
Net interest margin	3.03%	2.57%	2.56%

* Calculated using opening and closing balances.

Table A9

Lease and Real Estate Income

$ Millions	1996/97 Actual	1996/97 Plan	1995/96 Actual
Real estate income			
Real estate revenue	13.5	12.5	13.8
Farm Debt Review Board payments	0.1	0.0	2.0
	13.6	12.5	15.8
Real estate expense			
Real estate expense	2.9	3.2	3.5
Interest expense	10.3	12.1	13.2
	13.2	15.3	16.7
Lease and real estate income	0.4	(2.8)	(0.9)
Gain on disposal of property	6.6	–	12.2
Net lease and real estate income	7.1	(2.8)	11.3

Table A10

Administrative Expenses

$ Millions	1996/97 Actual	1996/97 Plan	1995/96 Actual
Personnel	46.8	41.9	41.7
Telecommunications	7.3	6.3	5.6
Office accommodation	6.5	5.4	5.9
Travel	4.9	4.6	5.0
Professional fees	3.9	1.1	3.8
Other	4.1	10.7	4.5
Training and development	0.9	1.2	0.8
Total on-going operations	74.4	71.2	67.3
Re-engineering	9.7	2.1	–
Total	84.1	73.3	67.3



Ron & Trevor Himmelsbach using the latest technology in cattle breeding.

Cattle Success

For the last 47 years, the Himmelsbach family has ruled out failure. They keep records on each cow they've owned, breeding results, an inventory of sires and their results from feedlot performance to the quality of calf they yield. Animals that don't measure up are sold.

Their company, Twin H Cattle Co., of Goodsoil, Saskatchewan, was named commercial breeder of 1996 by the Canadian Red Angus Promotion Society, for genetic and livestock production in a large commercial herd.

Originally Hereford and Shorthorn breeders, they set out to improve genetics by using purebred bulls in the 1950s. Gerhardt Himmelsbach was one of the original artificial insemination technicians in the province. After training, he started the Himmelsbach herd and worked the community pastures for approximately six years.

Over the last three years, the family has operated an aggressive artificial insemination and synchronization program second to none in Canada.

On May 6, 1997, they began an embryo program in cooperation with a purebred Angus herd in Alberta, synchronizing the breeding of 1,100 head of cattle by separating the cows into three herds of 250 and one group of 350 heifers. They expect to complete the process in four weeks.

Other Income, Administrative Expenses & Taxes (continued from page 23)

During 1996/97, FCC began a major re-engineering of its business processes and completed a corporate restructuring. These efforts are directed toward improving the effectiveness of operations and efficiency of resources utilized while demands upon those resources continue to increase. The project includes redesign of key business processes, upgrading of technology and information systems, implementation of new sales and sales management techniques and staff assistance and training during a time of major transition. The approximate $40 to $50 million total cost includes an incremental increase of $10 million in fixed assets expenditures. The cost of the project, including depreciation, will be spread over five years although most cash expenditures will occur in the first two years. Re-engineering will position the Corporation to better meet the future needs of Canadian agriculture.

Although administrative expenses were $16.8 million above last year, income before administrative expenses of $131.3 million was $22.1 million above the 1995/96 level of $109.2 million. The administrative coverage ratio of 1.56:1 at March 31, 1997 represents a slight deterioration from last year's coverage ratio of 1.62:1 but is better than the corporate target of 1.38:1.

Administrative expenses expressed as a percentage of average loans receivable plus average real estate holdings is referred to as the administrative expense ratio. This ratio measures how efficiently the Corporation has used its core assets in delivering its services. For the year 1996/97, this ratio was 1.86 per cent which falls short of the target of 1.66 per cent and last year's results of 1.69 per cent.

This deterioration in both ratios is a direct result of the cost of administering the growth in lending activity while making a significant investment in re-engineering.

Income Taxes

The significant increase in income tax expense from last year's $1.5 million is primarily due to FCC's acceptance of NISA funds which subjects

GOAL #4

FCC's ROE is 9.3 per cent compared to our target of 6.5 per cent.

the Corporation to Part VI tax under the *Income Tax Act*. The additional Part VI taxes on capital of financial institutions are normally offset against current taxes payable. However because of the Corporation's taxation loss carry-forward position there is virtually no current tax payable.

Conclusion

Fiscal 1996/97 was a successful year for FCC, although the debt-to-equity ratio increased to 10.0:1 at March 31, 1997 compared to last year's ratio of 9.4:1. The slight deterioration of the debt-to-equity ratio is a result of the debt required to fund the growing portfolio growth which is increasing at a faster rate than the equity generated. The Corporation is still well within the legislated debt-to-equity limit of 12:1.

Return on equity of 9.3 per cent continues to be strong, with the five-year average equalling 9.8 per cent annually, well above the shareholder's long-term cost of capital. The return on assets for 1996/97 is 0.86 per cent. Both return on equity and return on assets are above the plan of 6.5 and 0.61 per cent respectively.

$ Millions
Loans receivable
Net loan disbursements
Loan renewal rate (%)
Loan loss factor (%)
Arrears
Real estate portfolio
Administrative expenses
Net income
Administrative coverage ratio (X:1)
Administrative expense ratio (%)
Debt-to-equity ratio (X:1)
Return on equity ratio (%)

outlook

The Corporation expects that the strong performance turned in by the agricultural sector in 1996/97 will continue during 1997/98 and is anticipating another year of brisk lending activity that will result in a total loans receivable portfolio in excess of $5 billion. Loan loss and risk levels directly related to the strength of the agricultural sector should continue at current levels.

FCC plans to accelerate the pace of land sales to farmers during 1997/98 by divesting more than 13 per cent of its current portfolio. Of significant note will be Agri-Land's work to complete environmental impact assessments of current land holdings and loans in accordance with the federal government's Green Plan. FCC has set a target completion date of January 1, 1999.

FCC's transition to its status as the default financial institution for the NISA program and the continuing participation as an eligible financial institution for receipt of Fund 1 accounts provides a significant opportunity. The target for NISA deposits is $225 million by March 31, 1998.

The federal government has announced its intention to provide $50 million in additional capital to FCC. The Corporation will utilize these funds to meet the increasing demand for FCC's products and services.

FCC plans to continue investment in the re-engineering, restructuring and transformation initiative begun during 1995/96. Although these non-recurring investments will negatively impact some key financial ratios in the short run, the long-term outlook is for significant improvement.

Table A11

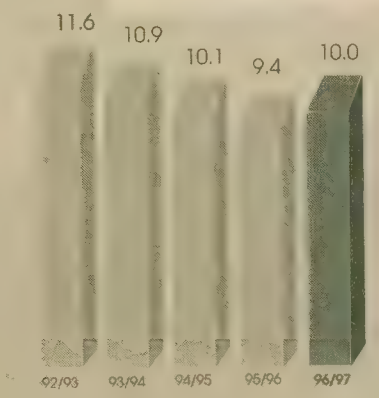
ey Financial Targets

1997/98 Plan	1996/97 Actual	1996/97 Plan
5,384.0	4,687.0	4,512.3
1,463.0	1,342.9	1,036.8
94.0	94.0	93.0
2.00	1.86	2.06
40.1	29.4	32.6
119.3	139.6	151.4
86.6	84.1	73.3
39.4	40.6	26.2
1.50	1.56	1.38
1.70	1.86	1.66
10.3	10.0	10.6
8.3*	9.3	6.5

* *Prior to the $50.0 million capital injection from the Government of Canada.*

Chart A10

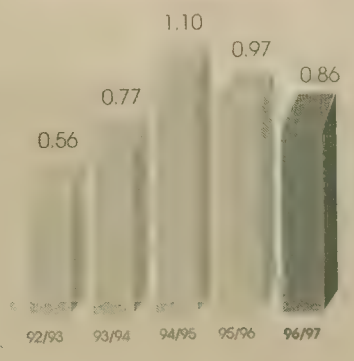
Fiscal 1996/97 saw a slight increase in the debt-to-equity ratio due to unprecedented levels of lending activity



DEBT-TO-EQUITY RATIO
(x:1)

Chart A11

Return on assets continues above plan of 0.61%.



RETURN ON ASSETS
(%)

The Corporation expects that the strong performance turned in by the agricultural sector in 1996/97 will continue during 1997/98 and is anticipating another year of brisk lending activity that will result in a total loans receivable portfolio in excess of $5 billion.

highlights

Operational	1996/97	1995/96	1994/95	1993/94	1992/93
Total loans receivable portfolio					
Number	**65,318**	60,250	56,760	55,455	56,687
Amount ($ millions)	**4,687.0**	4,066.3	3,535.7	3,322.6	3,308.7
Number of loans approved	**12,910**	10,193	6,428	5,117	2,734
Amount of loans approved					
Gross ($ millions)	**1,432.4**	1,084.9	658.2	553.9	285.4
Net ($ millions)	**1,402.9**	1,032.7	631.9	511.7	277.1
Average size of loans approved – net ($)	**108,668**	101,315	98,308	100,013	109,696
Percentage of loans in good standing	**93.7**	94.9	95.9	95.0	92.0
Percentage of total owing in good standing	**93.1**	94.1	95.4	94.3	87.8
Real property held at year end					
Number	**1,982**	2,171	2,529	2,758	2,803
Value ($ millions)	**139.6**	153.5	196.6	221.5	231.9

Financial	1996/97	1995/96	1994/95	1993/94	1992/93
Revenues and expenses ($ millions)					
Net interest income	**141.7**	105.2	99.2	87.9	68.6
Net provision (recovery) for loan impairment	**24.0**	12.1	9.7	9.6	–
Net lease and real estate income	**7.1**	11.3	8.6	6.9	11.9
Other income	**6.5**	4.9	6.9	2.9	1.7
Administrative expenses	**84.1**	67.3	60.2	59.0	55.3
Large corporation tax	**6.6**	1.6	2.1	0.7	1.2
Net income for the year	**40.6**	40.4	42.7	28.3	20.4
Financial position ($ millions)					
Total assets	**5,022.5**	4,371.4	3,986.3	3,773.6	3,623.0
Total liabilities	**4,564.7**	3,951.6	3,626.7	3,456.7	3,334.4
Equity of Canada	**457.7**	419.8	359.6	316.9	288.6

senior management

Executive management at FCC is comprised of four Executive Vice-Presidents and nine Vice-Presidents whose role it is to manage and direct the Corporation's business and to ensure that the objectives set out in the corporate plan are realized. Senior management members also provide advice to the Chief Executive Officer on matters pertaining to the Corporation's direction.

Essential to the fulfillment of this role, is the responsibility of senior management to lead and motivate employees through business change and ongoing development of the Corporation.

Senior management members are governed by the *Financial Administration Act* which states that officers must act honestly and in good faith and exercise care, skill and diligence in performing such duties and responsibilities. Senior management, together with all employees of FCC, are also governed by the Employee Conduct and Ethics Policy, which ensures the highest ethical standards of business, professional and personal conduct, including avoidance of conflicts of interest. At all levels, FCC management is committed to making FCC a positive, professional and ethical environment in which to work.

Senior Management Compensation

The compensation to senior management is based upon compensation policies and scales approved by the Board of Directors. Compensation paid to senior management members ranges from $104,040 to $130,040 at the Executive Vice-President level and from $79,350 to $113,570 at the Vice-President level.

The compensation range for the Chief Executive position during 1996/97 was from $117,000 to $142,400. The 14 members of the senior management team were paid a total of $1,486,030 including the CEO.

FCC's Senior Management Team

John van Abbema
Vice-President, Eastern Region

Marshall Stachniak
Vice-President, Farm Financing

Dale Canham
Vice-President, General Counsel & Corporate Secretary

Marie-José Bourassa
Vice-President & Controller

Bob Aumell
Executive Vice-President, Special Projects

Russ Holm
Executive Vice-President, Operations

Jay Henryk
Vice-President, Corporate Services

Terry Craig
Vice-President, Risk Management

Terry Kremeniuk
Vice-President, Agribusiness & Agricultural Alliances

Max Pierce
Executive Vice-President & Chief Economist

M. Blake Walker
Vice-President & Treasurer

Jacques Doran
Executive Vice-President, Business Process Re-engineering

Don Jackson
Vice-President, Marketing & Communications



management discussion & analysis

Treasury Management

"FCC is searching global markets for new sources of funds to lower borrowing costs to benefit our farm clients" – *M. Blake Walker, Vice-President & Treasurer*

1995



Number of Loans Approved 6,428

Amount of Loans Approved $658.2 *million*

Average Amount of Loan $98,308

Financial Risk Management

FCC's performance as an agricultural lending institution is impacted by the management of market risks such as liquidity, foreign exchange and interest rate risk.

FCC manages its financial risk exposure utilizing a formal risk management framework. Policy limits are established by the Corporation's Board of Directors in accordance with the Minister of Finance's *Financial Risk Management Guidelines for Crown Corporations*. During the 1996/97 fiscal year, FCC reviewed and revised its guidelines to reflect current risk management "best practices."

Senior management directs the management of financial risks via the Asset/Liability Management Committee (ALCO). Its responsibility is to identify, measure, monitor, control and report all risk exposures to the Board, set risk management policies and monitor performance on behalf of the Board.

FCC's Treasury Division develops risk management policies and is tactically responsible for day-to-day financial risk management using an array of analytical tools including duration analysis, gap reporting, net interest income and market value of portfolio equity simulations. Financial risk exposures, financial instrument positions and treasury activity are reported monthly to ALCO and quarterly to the Board.

Liquidity Risk Management

FCC's liquidity management program ensures the generation of sufficient cash resources on a timely basis to support customer borrowing requirements and business operational requirements in a cost-effective manner. ALCO and the Board set policie establishing guidelines and parameters for cash management, diversified funding, and asset liquidit

GOAL #5

In 1996/97, FCC lowered its average cost of funds by nine basis points relative to its benchmark funding targets.

The liquidity risk of the Corporation is mitigated by focusing substantial effort on careful measureme and forecasting of cash requirements for the fiscal year. Dynamic management of liquidity risk encompasses the daily monitoring of cash flows and the continual review and update of longer term forecasts to reflect new information. Cash resources and short-term investments increased 21.1 per cent in 1997 as FCC continued to mainta high levels of liquidity. Cash resources represented 4.8 per cent of total assets and consists of highly liquid investments including high-grade governmen and Canadian chartered bank investments.

maintenance of a highly liquid investment folio, readily available for sale to meet daily cash irements, is an essential part of the Corporation's idity risk management program. An additional ponent of this strategy is the continual assessment, ancement and management of a stable and rsified funding base.

C's short-term funding sources include:
domestic Commercial Paper Program;
hartered bank lines of credit; and
overnment funding sources.

C also enhances its liquidity position by accessing rnational capital markets. At March 31, 1997, the poration had an authorized short-term borrowing icity of $1.7 billion and had $747.7 million of t-term debt outstanding.

reign Exchange k Management

C utilizes foreign currency borrowings to generate -effective funding. The majority of FCC's assets denominated in Canadian dollars. Therefore the poration has a policy of fully hedging foreign ency borrowings to eliminate the potential ign exchange (FX) risk associated with erse movements in foreign currencies.

erest Rate Risk Management

rest rate risk (IRR) is the risk that FCC's net inter- ncome and capital position would decline from erse changes in interest rates. IRR can result from alances in asset/liability (A/L) duration matching ch causes mismatches in the repricing ssets and liabilities in a given period, or from embedded options related to our lending products (i.e. loan rate guarantees and prepayment features). In order to manage IRR, FCC targets the duration and maturity structure of its assets and liabilities on a portfolio basis and actively manages asset/liability positions.

IRR risk exposures are measured and managed to ensure compliance with prudent risk tolerance limits established by the Board of Directors. Measurements of IRR include measures of net interest income and economic net worth (i.e. capital position) variability. Assets and liabilities are managed to ensure that interest rate changes will not have a material adverse impact on net interest income or the capital position of the Corporation. Derivative instruments including interest rate swaps and interest rate options are used to manage IRR exposures.

FCC measures interest rate risk exposures with an A/L modeling system that simulates changes in net interest income (NII) and market value of portfolio equity (MVPE) for changes in the yield curve. Given FCC's interest rate position at March 31, 1997, assuming an immediate and sustained increase of two percentage points in interest rates, NII would be lower than planned by approximately $8.6 million over the next 12-month period. This exposure is well within the NII variation limits approved by the Board of Directors. In addition, the market value of both assets and liabilities is calculated to determine the market value of portfolio equity. Assuming an immediate and sustained two per cent increase in interest rates, MVPE would be lower by approximately $39.2 million. This exposure is within the one per cent MVPE variation policy limit approved by the Board.

"T.J. Rutherford's promotion of the use of credit as an active agent in bringing about the adjustments so necessary to the agricultural industry will have an increasingly significant influence upon the entire Canadian economy."

– *George Owen, Vice-Chairman, 1961/62 FCC Annual Report*

1959 to 1962 In the first three years, FCC surpassed what CFLB accomplished in nearly 30 years.

NOVEMBER 1964 *Farm Syndicates Credit Act* passed, opening an avenue for expansion.

1964 Loan limit increased to $40,000.

THE FIRST DECADE OF THE FCC AGRICULTURE PARTNERSHIP

"Canadian agriculture has undergone profound changes since the Corporation was established as successor to the Canadian Farm Loan Board in 1959. The farmer today requires a much higher cash income than did his father to satisfy not only his needs, but his legitimate expectations that he and his family might enjoy amenities of living comparable to that of other sectors of society."

- *George Owen, Chairman, 1969/70 FCC Annual Report*

1972 Loan limit increased to $100,000

1975 Loan limit of $150,000 for farmers under the age of 35

1978 Loan limit increased to $200,000 for one operator and $400,000 for two or more operators.

1997



Number of Loans Approved **12,910**

Amount of Loans Approved **$1.4 billion**

Average Amount of Loan **$108,668**

Gap positions are also monitored to provide complementary financial control to the more sophisticated NII and Market Value simulation models. Gap analysis measures the difference in the amount of assets and liabilities and off-balance sheet instruments maturing or repricing in specified time periods. "Gap" positions may positively or negatively impact interest margins and profitability depending on the nature or "sensitivity" of the gap and the future direction of interest rates. The Corporation strives to measure option adjusted gap positions and manage its gap positions to ensure that interest rate changes will not have a material negative impact on the Corporation's earnings and capital.

Derivative Management

Treasury utilizes an array of cash instruments and derivatives to manage and control interest rate risk and foreign currency risk exposures. In addition to risk management, as an end user of derivatives, FCC also employs derivatives for funding and investment management purposes.

The Corporation actively uses off-balance sheet derivative instruments, including interest rate and currency swaps, options, futures, forward contracts and equity-linked swaps, to hedge or modify interest rate and foreign currency exposures arising from funding, risk management and investment activities.

FCC ensures it is able to measure, monitor and manage the value and financial risks of any derivat instrument before utilizing those instruments for hedging purposes. As at March 31, 1997, the total notional amount of outstanding derivative contrac was $1,403.3 million compared to $1,054.3 million as at March 31, 1996.

Pursuant to financial risk policy guidelines, derivat positions and risk exposures are reported monthly to ALCO and quarterly to the Board of Directors.

Derivative Credit Risk

Credit risk associated with off-balance sheet activit pertains to counterparty failure, that is, the risk of sible loss if a counterparty defaults on its contractu obligations. FCC uses "dollars at risk" (DAR) meth ology to manage credit risk in its derivative portfol DAR is based on statistical estimates of the potent losses FCC could experience due to changes in underlying prices and counterparty failure.

Table B1 The following table highlights the primary types and uses of derivative financial instruments

Risk Management	Funding	Investment Management
• interest rate swaps for asset/liability management	• currency swaps to eliminate foreign exchange risk	• forward rate agreements (FRA's) to enhance investment returns and to hedge short-term funding costs
• options on interest rate swaps (swaptions) to hedge prepayment and commitment risk	• equity-linked swaps and interest rate swaps to eliminate risks associated with structured funding transactions	• interest rate futures for locking in investment yields
• caps, floors and collars to manage interest rate risk exposures		

C manages derivative credit exposure by entering o derivative contracts with highly creditworthy mestic and international counterparties and by lizing collateral arrangements and other risk tigating techniques in its International Swaps d Derivative Association, Inc. (ISDA) master eements. Derivative positions and credit risk posures are continuously monitored and regularly orted to ALCO and the Board. As at March 31, 97, FCC had no material credit exposures to unterparties.

nding Activity

C's funding policy is approved by the Government Canada pursuant to FCC's Corporate Plan. FCC es domestic and international capital markets to nd its loan portfolio and business requirements.

C has three formal programs to source funds from e capital markets:
- a short-term domestic Commercial Paper Program;
- a domestic Medium-Term Note (MTN) Program; and
- a Euro Medium-Term Note (EMTN) Programme.

1996/97, FCC expanded its funding sources by e addition of NISA accounts. This has provided additional source of funding, facilitating further versification of the Corporation's funding base.

C continues to investigate new borrowing programs d opportunities both in domestic and international oney and capital markets in order to diversify investor base and to provide cost-effective funds.

hort-Term Funding

s at March 31, 1997, outstanding short-term rrowings were $748 million versus the balance tstanding as at March 31, 1996 of $456 million. his increase is attributed to a larger portion of ort-term debt supporting the mortgage and vestment portfolios in 1997.

The Corporation's five-year planning horizon incorporates an average increase in short-term debt of approximately $175 million per annum. This increased requirement is due to anticipated lending activities related to the introduction of new variable-rate loan products during the 1997/98 fiscal year, as well as the shortening of the duration of assets anticipated during the corporate planning period.

Medium & Long-Term Funding

During 1996/97, FCC borrowed a total of $809 million in par value in long-term funds, down from $931 million in 1995/96.

Table B2

Medium and Long-Term Borrowings for Fiscal Year Ended March 31, 1997

Capital Market Borrowings	$ Millions
Domestic Medium and Long-Term Notes	481.0
Domestic Structured Notes	233.0
Euro MTN Programme	95.0
Total	809.0

In 1996/97, FCC issued $714 million in notes under its Medium-Term Note Program of which $233 million were structured notes. An example of structured notes offered by FCC in 1996/97 was the European Stock Index-Linked Note where the note pays investors a return based on the performance of the EuroTop 100 Index. The benefit of structured notes is FCC can diversify funding sources and generate cost effective floating or fixed-rate funding by swapping out of the financial risks inherent in structured notes.

Based on anticipated new lending activity and depending on market conditions, aggregate new long-term borrowings are estimated to be in excess of $1 billion annually over FCC's five-year planning period.

The 80's
Hard Times Return

Between 1980 and 1986, a number of major importing countries attempted to increase their self-sufficiency and reduce reliance on imports. World cereal production increased 18 per cent, farm stocks grew and market prices fell. World wheat prices decreased by 50 per cent and wheat stocks increased. By 1981/82, growth in demand for Canadian wheat began to stall as world supply increased relative to demand.

FCC's Response

February 1, 1983 FCC introduces 10-year renewable mortgages.

February 4, 1983 FCC's first venture into capital markets.

March 3, 1983 Loan limit increased to $350,000 for one applicant and $600,000 for two or more.

June 10, 1983 FCC stopped loan approvals due to capital shortages.

July 20, 1983 FCC allocated $250 million for its lending program to direct funds to those in need.

April 6, 1984 Renewable loan of 5, 10, 20 years with a maximum of 29 years offered.

1997 objectives 2001

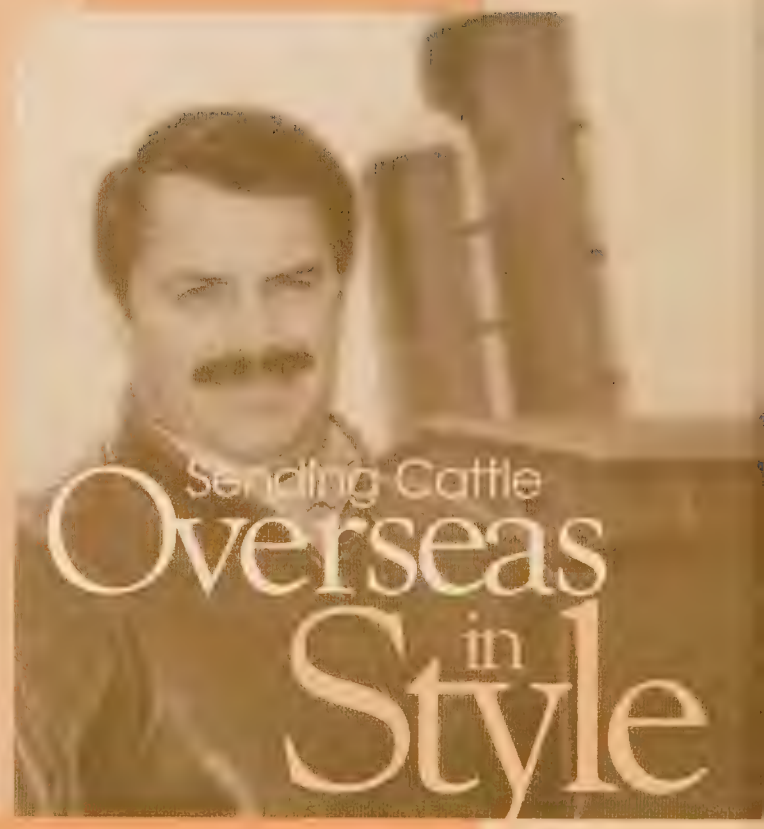
Larry Jewett, owner and President of Jewett Holsteins and Atlantic-Allstar Genetics Ltd., ships cattle overseas in specially designed and patented containers.

"We can ship 14 head or 500 head depending on what the need is, so we can go for large markets and small markets," Jewett says.

Recognizing that Atlantic cattle breeders were unable to access overseas markets because of the prohibitive shipping cost of trucking cattle to an airline and then flying the cattle to the destination, Jewett designed a specialized container for shipping cattle at a lower cost.

"We provided funding to purchase and convert 10 or 12 of these containers, seeing an opportunity for him to diversify his dairy, embryo-transfer and cattle exporting operation," says Neal Mundle, Credit Advisor.

Four years ago, Jewett sent his first shipment to England. Since then, he has shipped to Puerto Rico, Morocco and the Czech Republic. The biggest one-time shipment so far is 227 head recently shipped to the United Kingdom.



Sending Cattle Overseas in Style

Pursue client-driven organizational change to develop a support system, by implementing re-engineered business processes, that fulfils the expectations of customers who demand the best total cost, dependability and convenience from their products. The Corporation will continue the streamlining process initiated in 1995/96. A Customer Service Centre will begin offering service to clients in 1997/98. Constant monitoring of client service will identify and correct any areas that need improvement.

Design and implement business information systems that fulfil the expectations of customers who demand the best total cost, dependability and convenience from their products, in a planned, systematic, client-friendly manner. FCC will continue updating technological architecture and evaluating alternatives to improve and/or replace the integrated loan accounting and financial management system. FCC will develop an action plan to address change issues in entering the new millennium, such as computer compatibility.

Enhance access to capital and other financial services for agricultural clients. FCC will keep pace with clients by continuing to develop new products and to explore agribusiness market potential.

Create an environment that results in dedicated and resilient employees. The new compensation system, with new job evaluation plans, base salary structure and reward programs will be more effective in motivating staff to exceed corporate goals. Continued training and support will ensure that staff have the skills they need to excel at serving clients. FCC's workplace diversity plan will ensure balanced representation of all groups in society, in keeping with the newly established legislative requirements and our corporate values of fair treatment and opportunity for all staff.

Achieve a desired return on equity that contributes to a sound capital structure, thereby enhancing the Corporation's financial viability. FCC will continue to work toward a sound capital structure and to improve and enhance financial performance by growing a healthy portfolio characterized by reasonable loan margins, diversification and low levels of arrears. The goal is to achieve an 8.3 per cent return on equity in 1997/98, prior to the impact of the $50 million equity injection, while growing a quality portfolio by $640 million. The more conservative ROE for 1997/98 reflects the costs associated with our sustained commitment to re-engineer FCC's delivery channels. To meet financial performance objectives, FCC is striving to lower funding costs by diversifying its funding base and developing new sources of capital.

As we move forward over the next five years, FCC will continue not only to manage the challenge of change, but to excel in offering excellent services and products to the agricultural industry.

Provide financial services to farmers and agribusinesses consistent with government objectives for rural economic development. The Corporation will continue to add value to the Government of Canada and the agricultural industry by sharing expertise and experience toward the formation of agricultural strategic and policy decisions, developing new business alliances with other public and private financial institutions and serving as a delivery vehicle for government for programs pursuant to the *Farm Credit Corporation Act*.

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Corporation as at March 31, 1997 and the statements of operations and deficit and changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an audit opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997, and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Corporation Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 16, 1997

Management's Responsibility for Statements

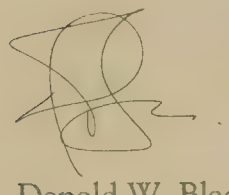
The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for loan impairment and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

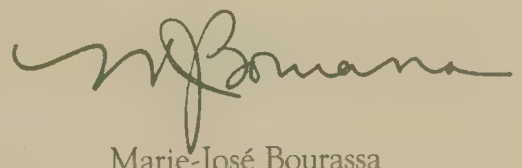
In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which includes a majority of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis, and the auditors have full and free access to the Audit Committee.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.



Donald W. Black
Chair and Acting
Chief Executive Officer



Marie-José Bourassa
Vice-President and Controller

Regina, Canada
May 16, 1997

Balance Sheet

AS AT MARCH 31, 1997

	1997	1996
		(000's)
ASSETS		
Cash and temporary investments (Note 4)	$ 241,014	$ 198,946
Accounts receivable and other accrued assets	28,928	29,590
Long-term investments (Note 5)	79,227	61,916
Net loans receivable (Notes 6 and 7)	4,521,604	3,922,554
Real estate acquired in settlement of loans (Note 8)	139,629	153,468
Equipment and leasehold improvements	12,065	5,895
	$ 5,022,467	$ 4,372,369
LIABILITIES		
NISA investments held (Note 9)	$ 17,552	$ –
Accounts payable and accrued liabilities	27,373	25,198
Short-term notes (Note 10)	747,667	456,369
Other liabilities and deferred fees (Note 11)	18,273	22,042
Loans payable (Note 12)	3,753,877	3,448,929
	$ 4,564,742	$ 3,952,538
EQUITY		
Contributed capital (Note 1)	1,118,333	1,118,333
Deficit	(660,608)	(698,502)
	457,725	419,831
	$ 5,022,467	$ 4,372,369

Approved:

The accompanying notes are an integral part of the financial statements.

Donald W. Black
Chair and Acting Chief Executive Officer

Warren Ellis
Chair, Audit Committee

Statement of Operations and Deficit

FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	(000's)	
INTEREST INCOME		
Loans receivable	$ 406,351	$ 357,440
Investment income	13,420	22,044
	419,771	379,484
Interest expense	278,053	274,299
Net interest income	141,718	105,185
Charge for loan impairment (Note 7)	23,986	12,146
Net interest income after charge for loan impairment	117,732	93,039
LEASE AND REAL ESTATE INCOME		
Lease and other revenue	$ 20,299	$ 28,033
Operating expenses	2,960	3,524
Interest expense	10,264	13,219
Net lease and real estate income	7,075	11,290
OTHER INCOME	6,519	4,858
INCOME BEFORE NON-INTEREST EXPENSES	$ 131,326	$ 109,187
Administrative expenses	84,104	67,271
Income taxes (Note 14)	6,628	1,546
NET INCOME FOR THE YEAR	$ 40,594	$ 40,370
Deficit at beginning of the year	(698,502)	(734,872)
Dividends (Note 1)	(2,700)	(4,000)
DEFICIT AT END OF THE YEAR	$ (660,608)	$ (698,502)

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Financial Position

FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
		(000's)
OPERATING ACTIVITIES		
Net income for the year	$ 40,594	$ 40,370
Items not involving cash		
Charge for loan impairment	23,986	12,146
Change in accrued interest receivable	6,243	(26,559)
Change in accrued interest payable	(1,058)	69
Other	22,043	(12,455)
Cash provided by operating activities	$ 91,808	$ 13,571
INVESTING ACTIVITIES		
Long-term investments	$ (18,042)	$ 40,968
Loans receivable disbursed	(1,342,900)	(1,332,700)
Loans receivable repaid	704,275	850,306
Proceeds from disposal of real estate	13,839	55,300
Other	(9,051)	(6,999)
Cash used in investing activities	$(651,879)	$(393,125)
FINANCING ACTIVITIES		
Loans from Canada	$ 0	$ 220,000
Loans repaid to Canada	(134,014)	(356,089)
Loans from capital markets	808,139	707,546
Loans repaid to capital markets	(378,136)	(204,459)
Change in short-term notes	291,298	(47,366)
Change in NISA investments held	17,552	–
Dividends paid	(2,700)	(4,000)
Cash provided by financing activities	$ 602,139	$ 315,632
Increase (decrease) in cash and temporary investments	42,068	(63,922)
Cash and temporary investments, beginning of the year	198,946	262,868
Cash and temporary investments, end of the year	$ 241,014	$ 198,946

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. The Corporation

(a) Authority and Objectives

Farm Credit Corporation (the "Corporation") was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the Farm Credit Corporation with its Corporate Office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role is to deliver specific programs of the Government of Canada on a cost-recovery basis and enhance rural Canada by providing specialized and personalized financial services to farming operations, including family farms and those businesses in rural Canada, that are related to farming.

(b) Contributed Capital

Contributed capital of the Corporation constitutes capital payments received from the Government of Canada. As at March 31, 1997, the statutory limit is $1,125 million (1996 – $1,125 million).

The federal budget of February 18, 1997, announced a $50 million capital injection to the Corporation. These funds, when received, will be credited directly to contributed capital. The capital injection will strengthen the Corporation's capital structure.

(c) Dividends

On May 29, 1996, the Corporation's Board of Directors declared a dividend in the amount of $2.7 million (1996 – $4.0 million) which was paid on September 30, 1996 to the Corporation's sole shareholder – the Government of Canada.

(d) Limits on Borrowing

The *Farm Credit Corporation Act* restricts the total of direct and contingent liabilities to 12 times the equity of the Corporation. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 1997, the Corporation's total liabilities were 10.0 times the equity of $457.7 million (1996 – 9.4 times the equity of $419.8 million).

2. Significant Accounting Policies

(a) Investments

Investments comprise the balance sheet categories of temporary investments and long-term investments. Interest income, gains and losses on disposal, amortization of premiums and discounts and write-downs to market value are reported in investment income.

Temporary investments are acquired primarily for the purposes of liquidity and are intended to be held for less than one year. Temporary investments are carried at cost. However, where the market value has declined significantly, temporary investments are written down to market value.

Long-term investments are acquired primarily for the purposes of asset/liability management and are intended to be held to maturity. Long-term investments are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity.

Included in the long-term investment portfolio are investments purchased to hedge against changes in future borrowing rates. Gains and losses on the disposal of these investments are amortized on a straight-line basis and applied to interest expense over the life of the related funding requirements.

(b) Net Loans Receivable

Net loans receivable are stated net of unearned income and allowance for loan impairment. Loans are classified as impaired when:

i) principal or interest is 90 days past due, unless the loan is well secured and in the process of collection, or

ii) circumstances indicate doubt as to the ultimate collection of principal and interest.

Interest income is recorded on the accrual basis until such time as management determines that a loan be specifically classified as impaired. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. All payments on the loan are credited against the recorded investment in the loan. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as a charge or credit for loan impairment. The loan reverts to accrual status when all charges for loan impairment are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans. Other loan fees are recorded as other income on the same basis as the related costs.

(c) Allowance for Loan Impairment

The allowance for loan impairment represents management's best estimate of probable credit losses on the loans receivable in light of current conditions. It has a specific and a general component.

Based on a loan-by-loan review, the specific component is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general component, which is prudential in nature, is established in respect of loans for which impairment has not been specifically identified. In establishing the general component of the allowance, management models historic portfolio migration trends and loss percentages and applies them to loans receivable balances categorized into risk pools. As a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government programs, international trade negotiations, future commodity prices and climatic conditions, in establishing the general component of the allowance. However, future agricultural and economic conditions are not predictable with certainty and, therefore, actual loan losses may vary from management's estimate.

The allowance is increased by charges for loan impairment and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

(d) Real Estate Acquired in Settlement of Loans

Real estate, whether held for the production of income through leasing or held for sale, is initially recorded at the lower of the recorded investment in the foreclosed loan and the fair value of the underlying security at the time of acquisition. The fair value of the security is the amount which could be realized in an arm's-length disposition considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Subsequent to acquisition, real estate leased for the production of income is carried at the fair value recorded on acquisition and is not written down for declines in the estimated fair value unless they are significant and permanent.

The carrying value of real estate held for sale is adjusted to reflect significant changes in the estimated fair value subsequent to acquisition.

Lease and other revenues from real estate are recorded when earned. Gains and losses arising from the disposal of real estate are included as a component of lease and other revenues.

(e) Farm Debt Review Process

Amounts received from the Government of Canada on behalf of farmers for concessions granted by the Corporation under the Farm Debt Review process are applied as if they had been received directly from the farmers.

(f) Equipment and Leasehold Improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% annum
Computer equipment and software	Straight-line	3 years
Automobiles	Straight-line	4 years
Leasehold improvements	Straight-line	Lease term plus the first renewal option

(g) Translation of Foreign Currencies

Loans receivable/payable and interest receivable/payable in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Interest income and expense denominated in foreign currencies are translated into Canadian dollars at the average month-end exchange rates prevailing throughout the year. Exchange gains or losses arising from the translation of foreign denominated debt and interest expense are reported net of the exchange gains and losses on the related currency exchange agreements and are included as a component of interest expense.

(h) Loans Payable

Interest settlement amounts for loans with equity-linked interest are estimated using the related index level as at the balance sheet date and included in accrued interest. Changes in the estimated settlement amounts during the year are included as a component of interest expense.

The difference between the ultimate amounts payable (at the initial exchange rates if the loans payable are denominated in a foreign currency) and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

(i) Derivative Financial Instruments

In order to manage its exposure to currency and interest rate risks, the Corporation uses various types of derivative financial instruments such as currency and interest rate swaps, forward rate agreements and interest rate options. These instruments include contracts designated and effective as hedges as well as asset/liability contracts which alter the Corporation's overall interest rate profile. The Corporation does not use derivative instruments for speculative purposes.

Currency exchange agreements

Amounts receivable or payable under currency exchange agreements are disclosed separately from the related foreign currency denominated loans receivable or debt and are translated into Canadian dollars at rates prevailing on the balance sheet date. The translated amounts are disclosed net of any amounts payable or receivable in Canadian dollars under these contracts. The net balance is reported as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Currency exchange gains and losses arising from currency exchange agreements are included in current income as a component of interest expense. The cost of these agreements is amortized on a straight-line basis over the life of the contract and the amortization is reflected in interest income or expense. The unamortized balance is included as a component of accounts receivable and other accrued assets or accounts payable and accrued liabilities.

Interest rate agreements

Periodic payments arising under swap and forward contracts are accounted for on an accrual basis with net accrued interest receivable or payable recorded as a component of either accounts receivable and other accrued assets or accounts payable and accrued liabilities. The cost of the contracts is amortized on a straight-line basis over the lives of the underlying instruments and reported as an adjustment to interest income or expense. Realized gains or losses from interest rate options are deferred and recognized in income over the lives of the hedged positions as an adjustment to income or expense of the hedged item.

(j) Pension Plan

Employees participate in the Public Service Superannuation plan administered by the Government of Canada. The Corporation matches employees' contributions for current or prior service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

(k) Employee Termination Benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees or settlements are reasonably determinable.

(l) Income Taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred income tax benefits which have not been recorded and will only be recognized when realized.

3. Change in Accounting Standard

The Corporation has adopted the new *Canadian Institute of Chartered Accountants Handbook* Section 3860: "Financial Instruments – Disclosure and Presentation" which includes a requirement that financial assets and liabilities be presented on a gross rather than a net basis unless an entity:

(a) has a legally enforceable right to offset the amounts; and

(b) intends to settle on a net basis.

Loans payable in foreign currencies were previously reported net of any currency conversion agreements. Effective in 1997 the Corporation reports these items on a gross basis. Prior period comparative figures have been restated to show these items on a gross basis increasing both assets and liabilities by $0.95 million. The implementation of this new standard has not changed the Corporation's measurement of net income.

4. Cash and Temporary Investments

	Effective interest rate (%)	1997	1996
		(000's)	
Cash (overdraft)		$ 15,563	$ (6,250)
Temporary investments	3.11 – 5.32	223,831	203,814
Accrued interest		1,620	1,382
		$ 241,014	$ 198,946

Temporary investments consist of instruments with maturities of less than one year, issued by:

The Government of Canada and its agencies and Crowns	$ 145,139	$ 106,181
Other	78,692	97,633
	$ 223,831	$ 203,814

Other investments consist of short-term instruments issued by the governments of the provinces of Canada, or short-term instruments issued by institutions with credit ratings of R1-L or higher. As at March 31, 1997, the largest total investment in any one institution was $25.0 million (1996 – $24.8 million) and the Corporation held investments in four separate institutions and provinces (1996 – six institutions and provinces).

5. Long-term Investments

	Stated interest rate (%)	1997	1996
		(000's)	
Amounts due within:			
1 year	7.50 – 10.75	**$ 41,500**	$ –
1 – 5 years	6.50	**15,000**	56,500
over 5 years	7.50 – 9.00	**18,500**	3,500
		75,000	60,000
Unamortized premium and discount		**3,150**	1,278
Accrued interest		**1,077**	638
		$ 79,227	$ 61,916

Long-term investments consist entirely of Government of Canada bonds.

6. Net Loans Receivable

	Stated interest rate (%)	1997	1996
		(000's)	
Principal amounts due secured by:			
– mortgages	4.25 – 15.25	**$ 4,026,951**	$ 3,680,722
– chattels	5.25 – 14.75	**408,451**	160,092
– notes	4.75 – 14.63	**156,250**	130,454
		4,591,652	3,971,268
Accrued interest and fees, net of payments held		**70,090**	61,597
		$ 4,661,742	$ 4,032,865
Recorded investment in impaired loans secured by:			
– mortgages		**$ 18,851**	$ 31,726
– chattels		**3,840**	1,134
– notes		**2,571**	529
		25,262	33,389
Less: Allowance for loan impairment (Note 7)		**(165,400)**	(143,700)
		$ 4,521,604	$ 3,922,554

6. Net Loans Receivable (continued)

	1997	1996
		(000's)
Principal amounts (excluding impaired loans) due within:		
1 year	$ 1,515,245	$ 1,119,897
1 – 5 years	2,571,325	2,227,881
over 5 years	505,082	623,490
	$ 4,591,652	$ 3,971,268

Management estimates that annually, over the next three years, between one and five per cent (1996 – one and five per cent) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 1997, $2.3 million (1996 – $0.0 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

As at March 31, 1997, loans to farmers and agribusinesses approved but not disbursed amounted to $173 million (1996 – $177 million). These loans were approved at an average interest rate of 7.41% and do not form part of the net loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by June 30, 1997.

7. Allowance for Loan Impairment

	1997	1996
		(000's)
Balance at beginning of the year	$ 143,700	$ 136,157
Write-offs, net of recoveries	(2,286)	(4,603)
Charge for loan impairment	23,986	12,146
Balance at end of the year	$ 165,400	$ 143,700
Specific allowance	$ 7,800	$ 8,000
General allowance	157,600	135,700
Balance at end of the year	$ 165,400	$ 143,700

As at March 31, 1997, the total recorded investment in loans receivable against which a specific allowance has been identified was $25.3 million (1996 – $33.4 million). The general allowance was established against the remaining $4,661.7 million (1996 – $4,032.9 million) investment in loans receivable.

8. Real Estate Acquired in Settlement of Loans

	1997	1996
	(000's)	
Balance at beginning of the year	$ 153,468	$ 196,651
Acquisitions	3,913	7,958
Disposals	(17,752)	(42,023)
WGTA reduction	–	(9,118)
Balance at end of the year	$ 139,629	$ 153,468

Real estate under long-term lease maturing:		
within 1 year	$ 195	$ 1,360
from 1 – 2 years	297	61
from 2 – 3 years	85,110	344
from 3 – 4 years	48,327	98,039
from 4 – 5 years	1,521	52,642
in 5 years and beyond	254	1,204
	135,704	153,650
Real estate held for sale	3,925	8,936
WGTA reduction	–	(9,118)
	$ 139,629	$ 153,468

Real estate represents farm property acquired in the process of administering loans receivable.

Real estate under long-term lease may be subject to renewal at the expiry of the original lease term. Leases reprice annually.

Payments received from the elimination of the *Western Grain Transportation Act* (WGTA) subsidy and retained by the Corporation were recorded in 1996 as a reduction of the carrying value of the associated property. (Note 16).

	(000's)
Future expected lease receipts, using current lease rates, receivable within:	
1 year	$ 13,099
1 – 5 years	24,897
	$ 37,996

9. NISA Investments Held

	Stated interest rate (%)	1997	1996
		(000's)	
Net Income Stabilization Account investments:			
Variable rate	4.00	$ 15,009	$ –
Term rate	2.75 – 6.00	2,369	–
		17,378	–
Accrued interest		174	–
		$ 17,552	$ –

Subject to the terms and conditions of the "Federal/Provincial Agreement Establishing the Net Income Stabilization Account (NISA) Program", the Corporation may be required to refund at any time amounts eligible for withdrawal under the terms of the NISA program.

10. Short-term Notes

	Effective interest rate (%)	1997	1996
		(000's)	
Short-term notes payable within one year	2.80 – 4.19	$ 742,384	$ 451,737
Accrued interest		5,283	4,632
		$ 747,667	$ 456,369

11. Other Liabilities and Deferred Fees

	1997	1996
		(000's)
Other liabilities and deferred fees consist of:		
Agri-Land investment fund	$ 3,731	$ 4,754
Downpayments on real estate sales	626	2,802
Provision for employee termination benefits	5,500	4,905
Net currency swap payable	624	4,693
Deferred loan fees	7,792	4,888
	$ 18,273	$ 22,042

The Corporation may, through its equity-building lease program, lease real estate acquired in settlement of loans back to the former owner ("the lessee"). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Agri-Land investment fund of the Corporation. Funds held in the Agri-Land investment fund earn interest at 3.25% (1996 – 5.25%). At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

12. Loans Payable

	Stated interest rate (%)	1997	1996
			(000's)
Loans from Canada, secured by notes	6.29 – 10.21	$ 1,981,011	$ 2,115,025
Loans from capital markets, secured by notes payable in:			
Canadian dollars	3.00 – 9.00	1,458,639	896,273
U.S. dollars ($75,000,000)	5.21	103,773	373,517
New Zealand dollars ($100,000,000)	8.00	95,781	–
payable in Canadian dollars, with interest payments linked to:			
the Hong Kong Exchange index	–	12,000	–
the Euro Top 100 index	–	37,000	–
		3,688,204	3,384,815
Accrued interest		65,673	64,114
		$ 3,753,877	$ 3,448,929

12. Loans Payable (continued)

Loans with equity-linked interest payments do not provide periodic interest payments but, upon settlement, provide the purchaser with a single payment based on changes in the underlying equity index. The Corporation has entered into swap agreements which offset all equity-based interest payments in exchange for periodic payments calculated at an agreed interest rate.

Loan payments denominated in foreign currencies have been fully swapped into Canadian dollars.

	1997	1996
	(000's)	
Amounts due:		
within 1 year	$ 764,471	$ 507,709
from 1 – 2 years	984,758	680,964
from 2 – 3 years	515,614	715,237
from 3 – 4 years	521,485	325,802
from 4 – 5 years	271,837	435,130
in 5 years and beyond	630,039	719,973
	3,688,204	3,384,815
Accrued interest	65,673	64,114
	$ 3,753,877	$ 3,448,929

Included in loans payable are $194 million (1996 – $20 million) of loans extendable beyond the above due dates at the Corporation's option.

The Corporation's borrowings (short-term notes and loans payable) are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the Corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

13. Derivative Financial Instruments

The Corporation uses derivative financial instruments with off-balance sheet risk to manage exposures to interest rate and foreign exchange fluctuations, for investment management purposes, and to reduce funding costs. Currency and interest rate swaps are used to offset foreign currency risk on foreign dollar borrowings and manage interest rate risk. Interest rate options are purchased to hedge options embedded in the Corporation's loan products as well as to reduce risk arising from loan rate guarantees.

Credit risk is the risk of financial loss occurring as a result of a default by a counterparty on its obligation to the Corporation. Replacement cost represents the mark to market value of outstanding derivative contracts. A positive replacement cost indicates the Corporation's exposure to derivative credit risk. The Corporation manages its exposure to credit risk by dealing only with financial institutions having very high credit ratings. Additionally, ISDA documents have downgrade and collateral provisions to reduce counterparty credit risk and, as a result, the Corporation does not anticipate any significant nonperformance by counterparties. The largest notional amount contracted with any institution as at March 31, 1997, was $435.3 million (1996 – $263.1 million) and the largest replacement cost of contracts with any institution as at March 31, 1997, was $1.6 million (1996 – $3.0 million).

13. Derivative Financial Instruments (continued)

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of financial instruments outstanding as at March 31, 1997, were as follows:

			(000's)		
1997 – Remaining term to maturity		**Within 1 year**	**1 to 5 years**	**Total**	**Replacement cost**
Currency Swaps:					
Receive	*Pay*				
CDN Fixed	USD Fixed	$ –	5,000	5,000	(69)
CDN Fixed	USD Float	–	2,250	2,250	(69)
USD Fixed	CDN Fixed	–	103,050	103,050	(3,603)
NZD Fixed	CDN Fixed	–	95,000	95,000	2,139
Interest Swaps:					
Receive	*Pay*				
Floating	Fixed	$ –	70,000	70,000	(2,019)
Fixed	Floating	55,000	475,000	530,000	2,367
Equity-indexed	Floating	–	49,000	49,000	(2,415)
Purchased options:					
Interest rate options		$ 470,000	10,000	480,000	1,588
Sold options:					
Interest rate options		–	69,000	69,000	(1,814)
Total		$ 525,000	878,300	1,403,300	(3,895)

			(000's)		
1996 – Remaining term to maturity		**Within 1 year**	**1 to 5 years**	**Total**	**Replacement cost**
Currency Swaps:					
Receive	*Pay*				
USD Fixed	CDN Fixed	$ 137,310	103,050	240,360	(5,349)
USD Float	CDN Fixed	138,000	–	138,000	(6,908)
USD Fixed	USD Float	135,900	–	135,900	2,291
Interest Swaps:					
Receive	*Pay*				
Floating	Fixed	$ –	25,000	25,000	(974)
Fixed	Floating	–	135,000	135,000	347
Purchased options:					
Interest rate options		$ 360,000	20,000	380,000	953
Total		$ 771,210	283,050	1,054,260	(9,640)

Included in derivative financial instruments are $179 million of interest rate swap and purchased option contracts extendable beyond the above due dates at the Corporation's option.

14. Income Taxes

(a) Timing differences of approximately $166 million are available to the Corporation as at March 31, 1997. These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the charge for loan impairment charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $392 million and expires on the dates indicated:

	(000's)
March 31, 1999	$ 179,000
2001	143,000
2003	70,000
	$ 392,000

(b) Income taxes payable by the Corporation represent capital taxes under Part VI and I.3 of the *Income Tax Act*. Part VI tax – a tax on the capital of financial institutions – is applicable to financial institutions with capital in excess of $200 million and can be reduced by Part I tax or surtaxes payable. Part I.3 tax is applicable to corporations with taxable capital in excess of $10 million and may be reduced by current or future Part I surtaxes payable.

15. Operating Leases

Future minimum payments by fiscal year on operating leases for premises, with initial non-cancellable lease terms in excess of one year, are due as follows:

	(000's)
within 1 year	$ 5,488
from 1 – 2 years	4,978
from 2 – 3 years	4,518
from 3 – 4 years	3,719
from 4 – 5 years	2,506
in 5 years and beyond	3,182
	$ 24,391

These leases generally provide for payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

16. Government Programs

Net Income Stabilization Accounts

In March 1996, the Corporation became an eligible financial institution, accepting and administering Fund 1 Net Income Stabilization Accounts (NISA). In November 1996, the Minister of Agriculture and Agri-Food designated the Corporation as the default financial institution for the NISA program. As the designated default financial institution, all Fund 1 NISA Accounts not administered by one of the 17 eligible financial institutions (in addition to the Corporation) as of June 1, 1997, will be transferred from the NISA Administration's Consolidated Revenue Fund, to the Corporation. The actual transfer of funds is scheduled to occur in August 1997.

16. Government Programs (continued)

Commodity-Based Loans

Net loans receivable as at March 31, 1997, included $100 million (1996 – $241 million) of loans under the Commodity-Based Loans (CBL) program. In 1997, the Corporation received $21.5 million (1996 – $9.9 million) from Agriculture and Agri-Food Canada as compensation for the early retirement of CBL loans and concessions made under the program. Concessions relate to preferential interest rates provided to borrowers under the program and cease when the related loans are retired. The program has not been available for new lending since 1989.

Western Grain Transportation Act

During the year, the Corporation received a $16.7 million transition payment as a result of the elimination of the *Western Grain Transportation Act* (WGTA). The Corporation forwarded $3.2 million to clients who purchased land from the Corporation after February 27, 1995 and before January 1, 1996. An additional $3.1 million was transferred to clients who were former owner/tenants and leased land from the Corporation during 1995 and 1996. No further payments are expected under this program.

Farm Debt Review Act

During the year, the Minister of Agriculture and Agri-Food was authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the *Farm Debt Review Act*. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments.

Since the inception of the Farm Debt Review process, the Corporation has offered $279 million in concessions and billed $278 million to the Government of Canada, of which $2.6 million was billed in the current year. The committed difference of $1 million will become due and be received over the next two years as farmers meet their commitments and thereby realize the benefits of the concessions.

Government funding for new concessions under the *Farm Debt Review Act* ceased effective March 31,1994.

17. Guarantees and Letters of Credit

The Corporation has issued guarantees and letters of credit on behalf of its clients which in total do not exceed $0.5 million as at March 31, 1997, (1996 – $0.2 million). In the event of a call on the above commitments, the Corporation has recourse against the clients.

18. Interest Rate Risk

Changes in market interest rates have a direct impact on the contractually determined cash flows of floating rate financial instruments and on the fair value of fixed-rate financial instruments.

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the Corporation's significant financial instruments by the earlier of their contractual repricing dates or their maturity dates. Instruments repayable by amortizing payments of principal and interest are shown as maturing on the interest term expiry date.

Floating rate loan receivables are linked to prime and reprice with changes in prime; interest term maturity date is used to determine the remaining term for floating rate loan receivables.

The calculated yield for loans payable in foreign currencies is disclosed net of currency swaps which are used to convert borrowings to Canadian dollar obligations.

18. Interest Rate Risk (continued)

1997 — Remaining term to repricing or maturity date	Within 1 year	1 to 5 years	(000's) Over 5 years	No fixed term	Total carrying value
Temporary investments	$ 225,451	–	–	–	225,451
Average yield	3.74%	–	–	–	3.74%
Long-term investments	$ 42,740	14,999	21,488	–	79,227
Average yield	6.76%	6.95%	6.58%	–	6.76%
Loans receivable (1)					
– Fixed-rate CDN	$ 1,002,996	2,548,602	1,088,071	–	4,639,669
Average yield	7.22%	8.56%	9.38%	–	8.46%
– Fixed-rate USD	–	–	2,329	–	2,329
Average yield	–	–	7.38%	–	7.38%
– Floating rate CDN	19,744	–	–	–	19,744
Average yield	5.38%	–	–	–	5.38%
NISA investments (2)					
– Fixed-rate	$ 398	2,005	–	–	2,403
Average yield	3.29%	4.73%	–	–	4.49%
– Floating rate	–	–	–	15,149	15,149
Average yield	–	–	–	4.00%	4.00%
Short-term notes	$ 747,667	–	–	–	747,667
Average yield	3.13%	–	–	–	3.13%
Loans payable					
– CDN	$ 781,865	2,135,772	632,189	–	3,549,826
Average yield	6.98%	7.28%	8.25%	–	7.39%
– USD	–	104,118	–	–	104,118
Average yield	–	5.90%	–	–	5.90%
– NZD	–	99,933	–	–	99,933
Average yield	–	5.93%	–	–	5.93%

18. Interest Rate Risk (continued)

1996 — Remaining term to repricing or maturity date	Within 1 year	1 to 5 years	(000's) Over 5 years	No fixed term	Total carrying value
Temporary investments	$ 205,196	–	–	–	205,196
Average yield	5.91%	–	–	–	5.91%
Long-term investments	$ –	58,563	3,353	–	61,916
Average yield	–	6.81%	8.81%	–	6.93%
Loans receivable (1)					
– Fixed-rate CDN	$ 693,548	1,991,096	1,330,705	–	4,015,349
Average yield	8.93%	9.03%	9.67%	–	9.22%
– Floating rate CDN	17,516	–	–	–	17,516
Average yield	7.57%	–	–	–	7.57%
Short-term notes	$ 456,369	–	–	–	456,369
Average yield	5.80%	–	–	–	5.80%
Loans payable					
– CDN	$ 194,166	2,113,767	755,407	–	3,063,340
Average yield	8.39%	7.48%	8.57%	–	7.81%
– USD	282,956	102,633	–	–	385,589
Average yield	9.06%	5.92%	–	–	8.20%

Note: (1) Loans receivable excludes impaired loans.

(2) Although certain of these contributions have fixed-interest terms, the Corporation may be required to refund at any time amounts eligible for withdrawal under the terms of the NISA program.

19. Fair Values

The following table summarizes the estimated fair value of the Corporation's financial instruments.

	1997		1996	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
		(000's)		
ASSETS				
Cash and temporary investments	**$ 241,014**	**$ 240,972**	$ 198,946	$ 199,168
Accounts receivable and other accrued assets	**28,928**	**28,928**	29,590	29,590
Long-term investments	**79,227**	**79,202**	61,916	62,278
Net loans receivable	**4,521,604**	**4,600,266**	3,922,554	3,963,329
LIABILITIES				
NISA investments held	**$ 17,552**	**$ 17,552**	$ –	$ –
Accounts payable and accrued liabilities	**27,373**	**27,373**	25,198	25,198
Short-term notes	**747,667**	**746,669**	456,369	456,939
Loans payable	**3,753,877**	**3,920,478**	3,448,929	3,523,701

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash, accounts receivable and other accrued assets, and accounts payable and accrued liabilities.

Fair value for long-term investments is determined by reference to quoted market prices.

The estimated fair value of NISA investments held is equal to the amount payable upon withdrawal.

Quoted market values are not available for a significant number of the Corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

Estimated fair value for temporary investments, short-term notes, and loans payable is calculated by discounting contractual cash flows at interest rates currently prevailing for equivalent terms to maturity.

The estimated fair value for loans receivable is determined by discounting expected future cash flows (after adjustment for amounts which may be collected in advance of the contractual due date) at market interest rates for loans with similar credit risks. The allowance for loan impairment is valued at its balance sheet carrying value.

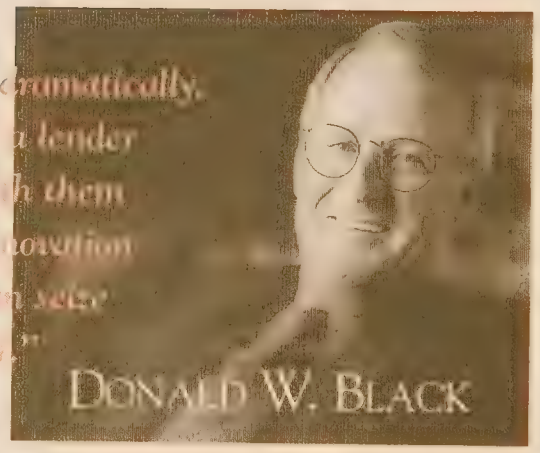
Note: The fair value (replacement cost) of derivative financial instruments is disclosed in Note 13.

20. Comparative figures

Certain 1996 comparative figures have been reclassified to conform with the presentation adopted in 1997.

corporate governance

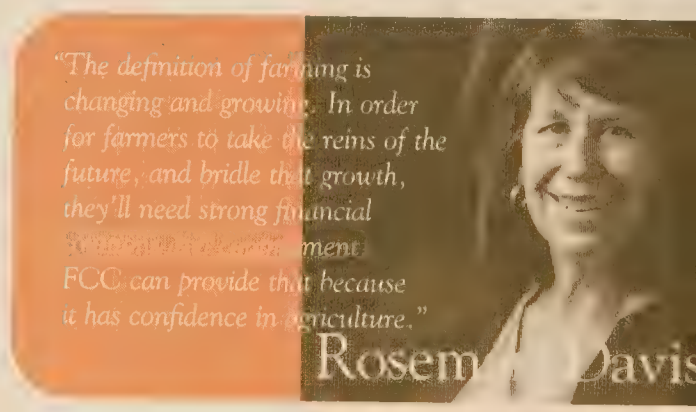
A Report from the Board of Directors



As a Crown corporation, FCC is a distinct legal entity, wholly owned by the Crown. The Board of Directors oversees the management of the Corporation and holds management accountable for the Corporation's performance. Through the Chair, the Board of Directors is accountable to the Minister of Agriculture and Agri-Food, who functions as a link between the Corporation and Cabinet as well as Parliament.

FCC's approach to corporate governance is substantially consistent with objectives reflected in the June 1996 guidelines for *Corporate Governance for Crown Corporations and Other Public Enterprises*, set forth by the Crown Corporations Directorate, Department of Finance and Treasury Board Secretariat, which build on the guidelines adopted by the Board of Governors of the Toronto Stock Exchange in 199

These guidelines address the key areas of responsibil for effective corporate governance, including respon bility for stewardship of the Corporation, the Board's role in working with management, and the function ing of the Board.





Corporate governance is the process and structure for overseeing the direction and management of a Crown corporation so that it effectively fulfils its mandated public policy and commercial objectives. The process and structure defines the division of power and responsibilities among the Crown, the Board of Directors, and management, while establish ing the mechanisms for achieving accountability.

Subject always to the *Farm Credit Corporation Act (FCCA)* and the *Financial Administration Act (FAA)*, areas addressed by the Board in its governance

he Role of the Board

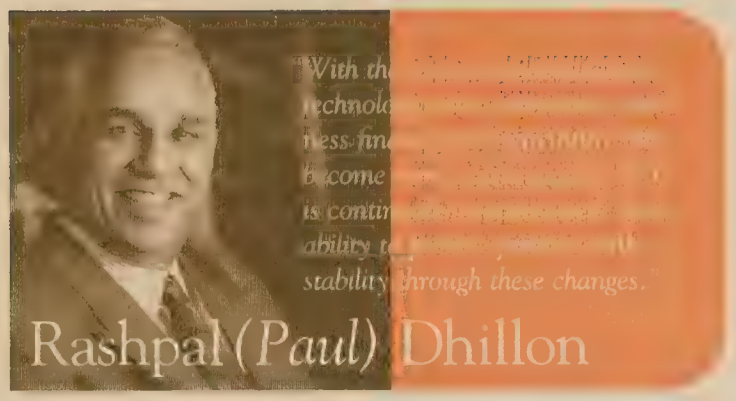
serving the public interest, Crown corporations
ve somewhat greater managerial autonomy than
vernment in general, in order that they may
erate in a commercial manner. The legislated
ntrol and accountability regime aims to balance
e Corporation's autonomy with accountability
both government and to Parliament. Directors
vern in accordance with the *FCCA* and the *FAA*.

irectors ensure that management pursues the
rporation's statutory functions and that these
nctions are in accordance with the mandate.
ne Board's responsibility can be summarized
three main areas:

EWARDSHIP OF THE CORPORATION
including approval of strategic direction and corporate plan; identification of principal risks of the Corporation's business and ensuring the implementation of appropriate systems to manage these risks; succession planning including appointment, training and monitoring of senior management; ensuring the integrity of the Corporation's internal control and management information systems and practices; examining its public policy objectives and legislated mandate to ensure relevance; ensuring effective communication with the Crown, other stakeholders and the public.

ORKING WITH THE MANAGEMENT
including board and management's working relationship, responsibilities and accountabilities; board functioning independent of management; the roles of the Chair and the CEO; the use of board and committee meetings; and periodic assessment of the CEO's position and performance.

UNCTIONING OF THE BOARD
including renewal of the Board, and the desired skills, experience and knowledge of Board members; composition; assessment of Board practice; education of directors; on-going education; compensation and responsibility for corporate governance.



of FCC include the composition, mandate and objectives of the Board of Directors and its committees; the Board's decision-making process; the orientation and education of directors; the independence of directors; avoidance of conflicts of interest; performance assessments of the



Board and the Chief Executive Officer (CEO); the Board's expectations of management; and shareholder feedback.

Board Composition

Board members are appointed by the Minister of Agriculture and Agri-Food pursuant to the *FCCA* and are selected to represent Canadian agricultural and financial communities. In the Board selection process, it is important to strive

Farm Credit Corporation supports the governance objectives of the Board of Directors as they steward the Corporation through a time of challenge and change.

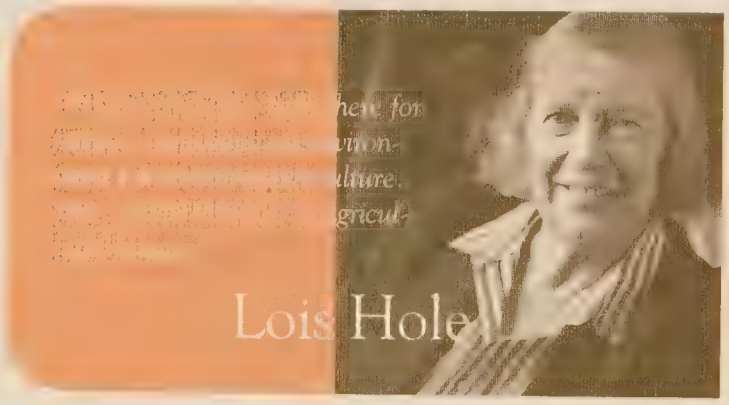
– Dale Canham,
Vice-President,
General Counsel &
Corporate Secretary



"The government considers an effective Board of Directors to be a vital element of the corporate governance and accountability regime for Crown corporations."

- Paul Martin, *Minister of Finance*
- Marcel Massé, *President of the Treasury Board*

Ottawa, June, 1996, Corporate Governance in Crown Corporations and Other Public Enterprises





Farmer: large-scale farming of colored bean
Lawyer specializing in agricultural la
Saint-Paul-de-Châteauguay, Québ

for gender, linguistic, employment equity target group and geographical representation. The candidate profile includes successful business people from a rural area or small urban centre, as well as people who are successful in the agri-food and financial services industries, and academics with a sound track record in policy making.

Board members have technical knowledge in agriculture, lending practices, marketing, accounting, corporate management and financial administration. While every board member cannot possess all skills and attributes, the totality of FCC's Board strives to reflect the profile.

Formal Orientation & Training Program

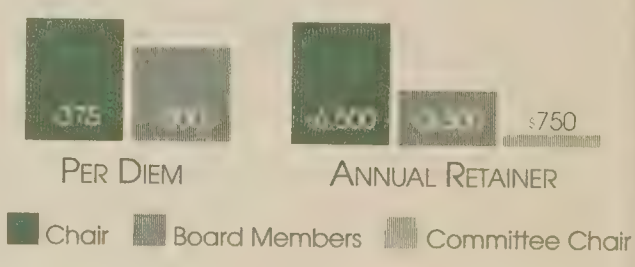
Upon their appointment, Board members receive an indepth briefing, together with a package of pertinent materials. The Board has also received information and presentations from outside industry experts on matters such as board governance, derivative instruments and risk management policies. In addition, Board members have participated in governance workshops sponsored by the Conference Board of Canada.

Board Meetings

This fiscal year there have been nine board meetin three Audit Committee meetings, six Human Resources Committee meetings, and two Chief Executive Officer Search Committee meetings.

Annual Retainer & Per Diem Policy

Per diems and annual retainer fees as set by the Governor in Council pursuant to the *FAA*, on the recommendation of the Minister of Agriculture and Agri-Food are as follows:

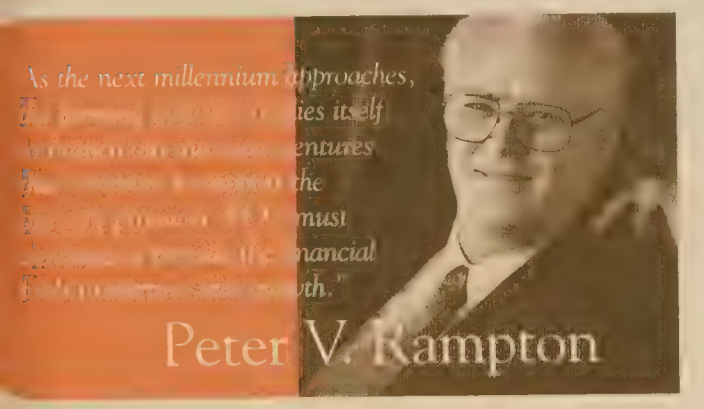


Travel Policy

Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while attending meetings.

Conflict of Interest/ Related Party Transactions

he Board of Directors is sensitive to the requirement at they have, and be seen to have, the ability to xercise fair and impartial judgement and a view the best interests of the Corporation. The *FAA* equires directors of Crown corporations to act onestly and in good faith, to exercise care and iligence and to disclose the nature and extent f interest in any material contract with the Corporation. The government's *Conflict of Interest nd Post Employment Code for Public Office Holders* pplies to all Governor in Council appointees.



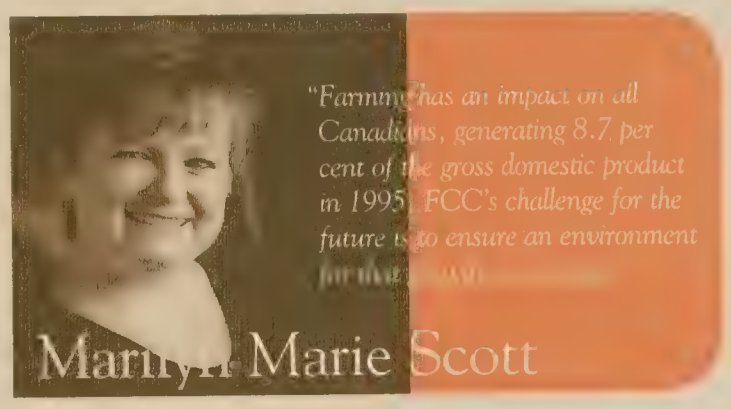
Accountant, Farm Partner, Board Member; ARC Industries, Dauphin, Manitoba

Chief Executive Officer

The CEO is appointed by the shareholder, he Government of Canada, in consultation with he Board of Directors and in accordance with the FCCA. The Board works with the CEO to: develop a position description to outline the limits to management's authority; develop and approve corporate objectives that the CEO will be held accountable for meeting; and to conduct a formal evaluation of the CEO's performance.

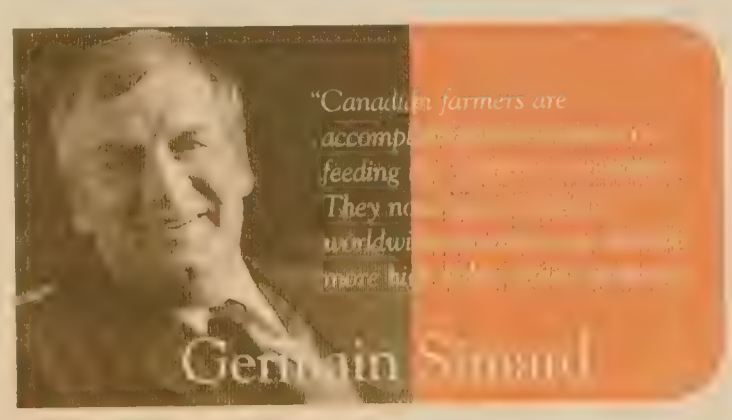
Dividend Policy

The Board of Directors established a dividend policy in 1995. Since then the Board has declared and paid a dividend to the Government of Canada in each fiscal year.



FCC Loan Review Board

The Board has established bylaw provisions for a Loan Review Board for each province. Members' appointments are made by the FCC Board of Directors from among independent successful farmers in each province. Loan Review Boards may hear applications for review from individuals whose loans have been declined by the Corporation or who have an issue of lease eligibility or terms with the Corporation. The Loan Review Board is empowered to inquire into the circumstances and to make recommendations only. Loan Review Board members receive per diem amounts set by FCC's Board of Directors and are reimbursed for out-of-pocket expenses in accordance with the Corporation's expense policies.



April 2, 1993 Farm Credit Corporation Act passed

"The new legislation means the FCC can now provide credit to farm operations carrying out related businesses off the farm. This will help encourage diversification, value-added processing and the development of niche markets for farmers. The continued viability of family farm businesses, the agri-food sector and rural communities depends on the ability of farmers to develop new markets.

"By extending the mandate, the FCC now has the flexibility to provide specialized and personalized financial services to clients who are seeking to strengthen their positions in a changing and increasingly competitive agri-food market."

– *Bill McKnight, Minister of Agriculture*

The definition of agriculture changes with new Act

FCC can set loan limits without legislative change.

FCC able to finance part-time or lifestyle farmers, make loans to producers for value-added enterprises; and to provide non-mortgage loans.

The future of FCC and agriculture

FCC continues to ensure there are no gaps in agricultural finance. The possibilities are as limitless as the imagination and entrepreneurial spirit of the Canadian farmer.

FCC Committees

Audit Committee

Chair:	Warren Ellis
Member:	Donald W. Black
	Rashpal Dhillon
	Marie-Andrée Mallette

• The Audit Committee has a broad mandate to provide the checks and balances on the Corporation and its related activities. Its primary function is to help the Board fulfil its oversight responsibilities by reviewing financial and operational information, systems of internal controls, compliance with laws, regulations and ethics. In carrying out its role, the Audit Committee has the authority to investigate any corporate activity, in all areas, as it deems necessary and appropriate.

The Audit Committee consists of a minimum of three members, who are independent of management of the Corporation. The Chair and the members of the Audit Committee are appointed by the Board of Directors and serve at the pleasure of the Board of Directors.

Human Resources Committee

Chair:	Peter V. Rampton
Members:	Donald W. Black
	Eleanor Hart
	Germain Simard

• The Human Resources Committee has a mandate to review all human resources policy issues of the Corporation that require Board approval and to report to the Board. The Committee also reviews the annual strategic human resources plan, provides guidance on issues of succession planning in respect of the office of the CEO, and reviews Board performance. The Committee is required to have at least three members, all of whom are independent of management, and must meet at least twice per year.

CEO Search Committee

Chair:	Donald W. Black
Member:	Edward Clark
	Eleanor Hart
	Marie-Andrée Mallette
	Peter V. Rampton

• With the completion of the term of C. Gerald Penney, FCC began the search process for a new CEO. The CEO Search Committee was formed January 9, 1997 to manage the selection process for the new CEO in conjunction with the Minister of Agriculture and Agri-Food and the Prime Minister's Office.

Donald W. Black	Edward Clark	Rosemary Davis	Rashpal Dhillon	Warren Ellis	Eleanor M. Har
Chair of the Board Member, Audit Committee Member, Human Resources Committee Chair, CEO Search Committee *Effective January 16/95*	Board CEO Search Committee *Effective May 28/96*	Board *Effective December 19/96*	Board Audit Committee *Effective June 12/95*	Board Chair, Audit Committee *Effective April 4/95*	Board Human Resources Committee CEO Search Committee *Effective May 2/9*
14,600	8,400	11,700	11,800	13,500	9,200
15,000	17,400	13,100	13,000	18,000	23,000
100%	100%	100%	92%	100%	94%

Remuneration ($) Expenses ($) Attendance Ratio (%)

200-Year-Old Operation Drives Change

Henry of Pelham Incorporated, a viticulture and wine-making operation in St. Catharines, Ontario, is driving change in agriculture. At the helm of this million-dollar-plus business is 30-year-old President Paul Speck, and his brothers Matthew, 27, and Daniel, 22.

"I think the only way to control your destiny is to control the end product," Paul Speck says. "It is no longer adequate just to grow the raw material. In this economy, you're already at the mercy of too many things. We're young, but you need that energy. You have to be very aggressive."

Taking a product that has a limited shelf-life – the grapes at harvest – and creating a longer shelf-life through wine-making provides a bigger window to sell the product, he says.

The 175-acre vineyard has been in the family since 1794. However, it wasn't until 1982 when his father, Paul Speck Sr., discovered the land was ideal for growing the kind of grapes the Europeans have tended for centuries.

Paul and Matthew planted 65 acres in 1984 of Vinifera grapes which produce world-class wines. Now the three brothers have 110 planted acres, and 16 full-time staff who tend the vineyard from spring to the harvest in October. The winery is in operation all year.

Speck believes that "great wines are grown, they're not made," and hasn't lost sight of the fact that he and his brothers are farmers first. But they are setting new boundaries for Canadian agriculture. That requires a leap of faith on the part of the investment and financial communities.

"It's not like we're pumping out widgets and we can control these things. We need ingenuity in farm financing. Farming, especially vineyards, is heavily capital-intensive, requiring a layout of huge sums of money. We need creative ways to finance."

"FCC is out pushing risk barriers that the banks are not prepared to deal with," Speck says.

"Growth will come as a result of forming partnerships with farmers. FCC does that."



Lois Hole	Marie-Andrée Mallette	Peter V. Rampton	Marilyn Marie Scott	Germain Simard
Board *tive April 4/95*	Board Audit Committee CEO Search Committee *Effective June 12/95*	Board CEO Search Committee Chair, Human Resources Committee *Effective May 2/95*	Board *Effective October 24/96*	Board Human Resources Committee *Effective June 12/95*
9,600	12,500	11,500	2,700	10,400
5,700	17,600	8,100	400	17,600
89%	100%	100%	80%	93%

glossary of terms

FCC is Where You Are

ATLANTIC PROVINCES

Suite 200
1133 St. George Blvd.
Moncton, N.B. E1E 4E1
(506) 851-6595

Other locations include:
Charlottetown, Grand-Falls, Kentville, St. George, St. John's, Summerside, Sussex, Truro, Woodstock

QUÉBEC

979 Ave. de Bourgogne
Suite 300
Sainte-Foy, Qué. G1W 2L4
(418) 648-3993

Other locations include:
Alma, Drummondville, Gatineau, Granby, Joliette, Rimouski, Saint-Arsène, Saint-Georges de Beauce, Saint-Hyacinthe, Saint-Jean-sur-Richelieu, Saint-Jérôme, Sherbrooke, Trois-Rivières, Valleyfield, Victoriaville

ONTARIO

1430 Gordon Street South
Guelph, Ont. N1G 4X5
(519) 821-1330

Other locations include:
Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Kingston, Lambeth, Lindsay, Listowel, Nepean, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Asset/Liability Management Committee (ALCO) A senior management committee responsible to ensure the management of an entity's assets with the management of its liabilities.

Allowance for Loan Impairment Management's estimate of probable credit losses in the loans receivable portfolio. The allowance is increased by specific and general charges for loan impairment and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

Basis Point One one-hundredth of a percentage point (ie: 1/100 of 1%).

Capital Capital of FCC consists of contributed capital, provided by the Government of Canada and retained earnings net of dividend payments.

Charge for Loan Impairment A charge to income which is added to the allowance for loan impairment.

Cross-Currency and Interest Rate Swaps Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Derivative Product A financial instrument whose value is based on and derived from an underlying price, interest rate, exchange rate or price index. Types of derivative contracts include: interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts, and futures.

Duration Analysis Duration measures the price sensitivity of a financial asset or liability to changes in interest rates. It is used as a tool to analyze assets and liabilities to quantify and control exposure to interest rate risk.

Gap Analysis A tool to measure the maturing balances of assets and liabilities for interest rate ris management purposes.

Hedge A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired Loans Loans are automatically classified as impaired when; i) a payment is 90 days past due, unless the loan is well secured and in the process of collection; or ii) when, in the opinion of management, there is no longer reasonable assuran of the timely collection of principal and interest.

Interest Expenses Interest expense to the Corporat incurred from the use of interest-bearing funding instruments.

Interest Income Interest income earned on loans receivable, cash and investments.

Interest Rate Options A right but not an obligati to pay or receive a specific interest rate on a notiona amount of principal for a set interval.

International Swaps and Derivative Association Inc. (ISDA) The principal swap industry trade group whose agreements are the industry standard documentation for derivative instruments.

Leverage The relationship between total liabilities and the equity of a business. The higher the ratio of debt-to-equity, the greater the leverage.

Market Value of Portfolio Equity (MVPE) The net present value of assets less liabilities. It is used to measure the sensitivity of the Corporation's net economic worth (ie: equity capital position) to changes in interest rates.

Net Income Stabilization Account (NISA) A federal program designed to help producers achieve long-term income stability. Producers may deposit funds into a NISA account and receive a matching contribution shared by the federal and provincial governments up to a specified percentage. Each account has two components: Fund 1 contains the participant's matchable and non-matchable deposits; Fund 2 contains the federal and provincial contributions and interest earned on both funds.

Net Interest Income (NII) The difference between the interest earned on assets, such as loans and securities, and interest expense on liabilities, such as deposits and loans payable.

Net Interest Margin Net interest income expressed as a percentage of interest-bearing assets.

Return on Assets (ROA) Net income expressed as a percentage of average total assets. Used with ROE as a measure of profitability and as a basis for intra-industry performance comparison.

Return on Equity (ROE) Net income expressed as a percentage of average shareholder's equity.

Special Traditional Farming Includes loans for the purposes of beekeeping, fur-bearing animals, rabbits, Pregnant Mare Urine (P.M.U.), horses, vermiculture, maple syrup and pisciculture.

Risk

Counterparty Risk The risk of a loss being incurred if a counterparty defaults on a financial instrument or transaction.

Foreign Exchange Risk (FX) The risk of financial loss due to adverse movements in foreign currencies.

Interest Rate Risk (IRR) Exposure to a decline in net interest income and capital position as a result of a relative or absolute change in interest rates. Varieties of interest rate risk include prepayment risk, commitment risk, and reinvestment risk.

Liquidity Risk The risk that required funds will not be readily available to meet corporate obligations in a timely manner.

Government Programs

***Feed Freight Assistance (FAA)** A federal program commenced in 1941 to provide a market outlet for western grain shipments disrupted by the war and to encourage livestock production in the feed deficit areas of Canada, including British Columbia and eastern Canada. Following crop year 1994/95, the program was terminated.

***Western Grain Transition Payments Program (WGTPP)** The Western Grain Transition Payments Program was put in place in the 1995 federal budget to provide transitional assistance to the owners of eligible western farmland who were directly affected by the termination of grain freight subsidies previously provided under the *Western Grain Transportation Act* (WGTA). To help offset the impact of this change on farmland values, the federal government provided $1.6 billion as a one-time payment to the owners of prairie land used to produce WGTA-eligible crops.

**Source: Agriculture and Agri-Food Canada*

Manitoba

400-5 Donald Street
Winnipeg, Man. R3L 2T4
(204) 983-4039

Other locations include:
Arborg, Brandon, Carman, Dauphin, Killarney, Melita, Morden, Morris, Neepawa, Portage la Prairie, Steinbach, Stonewall, Swan River, Virden

Saskatchewan

Suite 900
1801 Hamilton Street
Regina, Sask. S4P 4L3
(306) 780-5610

Other locations include:
Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard, Yorkton

Alberta/ British Columbia

Exchange Tower
Suite 1200
10250-101st Street
Edmonton, Alta. T5J 3P4
(403) 495-4488

Other locations include:
Abbotsford, Barrhead, Brooks, Calgary, Camrose, Dawson Creek, Fairview, Falher, Grande Prairie, Grimshaw, Hanna, Kelowna, Lacombe, Lethbridge, Medicine Hat, Olds, St. Paul, Stettler, Stony Plain, Three Hills, Vegreville, Vermilion, Wainwright, Westlock, Wetaskiwin

Yukon and North West Territories are served through the Edmonton Office

Agri-Land Sales & Leasing

1801 Hamilton Street
P.O. Box 4320
Regina, Sask. S4P 4L3
(306) 780-8411
1-800-910-5263

Corporate Office

1800 Hamilton Street
P.O. Box 4320
Regina, Sask. S4P 4L3
(306) 780-8100

This report was printed on recycled papers using vegetable-based inks.

FARM CREDIT CORPORATION

Values

Client Service

We are committed to building customer loyalty by consistently providing value and exemplary service.

Trust and Respect

We build client trust and respect by conducting our business in a fair and ethical manner and by being sensitive to client values.

Teamwork

We advocate teamwork and empowerment for staff to do their jobs effectively.

Employee Development

We promote professional development and continuous learning for staff.

Partnerships

We believe in partnerships that further enhance our commitment to agriculture.

Corporate Citizenship

We support community activities consistent with our vision and are sensitive to the protection of the environment.

Diversity

We believe that a diverse workforce reflecting the various backgrounds and cultures of Canadians brings strength to the organization.

FCC Farm Credit Corporation SCA Société du crédit agricole

Canada

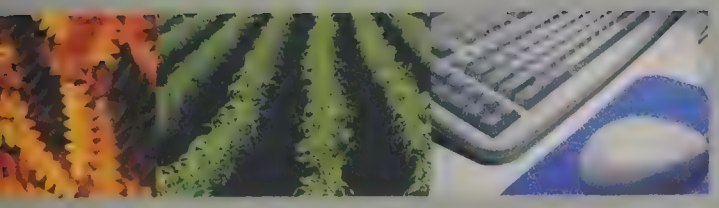
Cette publication est également offerte en français.

CORPORATE OFFICE • 1800 HAMILTON STREET • P.O. BOX 4320 • REGINA, SASKATCHEWAN • S4P 4L3 • (306) 780-8100

CA1
DB41
-A55

Publications

FCC



Visionary



Vision

Visionary leaders and trusted partners in agricultural financing ... open doors ... of specialized knowledge and innovation to work for the benefit of agriculture ... Canada



LIBRARY
JUN 14 1996

partners

Farm Credit Corporation Annual Report 1997/96

Mission

Our mission is to enhance rural Canada by providing specialized financial services to farming operations – including family farms and small to medium-sized agribusiness – with an emphasis on personalized service.

Corporate Profile

Farm Credit Corporation is a federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food. Established in 1959, FCC is Canada's largest agricultural term lender. FCC delivers joint programs and services with government agencies and other financial institutions.

FCC has a loan portfolio of 69,846 accounts, valued at $5.3 billion. Approximately 900 employees serve clients from more than 100 offices in farming communities across Canada.

The Corporation is governed by a Board of Directors, comprised of 12 members, representing farmers and agribusiness from across Canada. Under the *Farm Credit Corporation Act*, FCC offers a range of flexible financing solutions to primary producers and agribusiness, including diversification initiatives and value-added agricultural operations beyond the farm gate. The *Financial Administration Act* provides for the direction, financial control and accountability of FCC and outlines its relationship with the Government of Canada.

FCC's Corporate Office is located in Regina, Saskatchewan.

FCC SCA
Farm Credit Corporation Société du crédit agricole

Canada

Table of Contents

Financial Highlights ..... Page 2
Message from the President ..... Page 4
Message from the Chair ..... Page 7
Objectives ..... Page 10

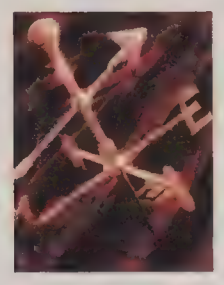
Beyond 2000 ..... Page 14
FCC: Lending a Helping Hand in the Community Page 16
Senior Management ..... Page 20
Alliances and Partnerships ..... Page 25

Management Discussion and Analysis

Operating Environment ..... Page 22
Operating Results ..... Page 26
Treasury Management ..... Page 34
Responsibility for Financial Statements ..... Page 38
Auditor's Report ..... Page 39
Financial Statements ..... Page 40
Corporate Governance ..... Page 60

Glossary of Terms ..... Page 66
FCC Products and Services ..... Page 68
Locations ..... inside back cover

A new reality – a new vision for FCC



A new reality is emerging in the agricultural industry, inspiring a new vision for producers and FCC. Once focused on producing raw product, farmers today are delving into more processing and producing value-added goods. Canadian producers are listening for signals in the industry, responding to changing markets, and taking action. Value-added initiatives are playing a larger role in the agricultural sector as farmers explore creative ways to diversify their operations. Technology and biotechnology are having the same impact on agriculture as mechanization did at the outset of the 20th century.

FCC's new vision...

Visionary leaders and trusted partners in agricultural financing – putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada.

The agricultural industry has come together – producers and agribusiness alike – bridging gaps and strengthening the Canadian foothold in the new competitive global agricultural marketplace. Partnership and cooperation on the international trade front now reign over the old concepts of barriers and territorialism. Globalization and the resulting awareness that we can achieve more working together is driving change across virtually all sectors of the business. One of the seven producers featured in this annual report refers to these exciting and challenging times as the "industrial revolution of agriculture."

Over the past 40 years, FCC has dedicated itself to enhancing growth in rural Canada. Focusing 100 per cent on agriculture, we have worked to provide specialized knowledge and expertise to the agricultural industry during good times and bad. Values such as hard work, dedication and commitment are the building blocks that have helped us to form strong relationships with producers Canada-wide and form the foundation for the future.

Inspired by our customers, whose creativity and entrepreneurial spirit will see agriculture through the next millennium, we will lead the way in agricultural financing and have charted a new course – a new vision.

In this report:

Feature stories about our customers from across Canada

Ray's Garden: Customer's Appreciation, FCC's Pride ..... p. 8
Canadian Biotechnology Internationally Recognized ..... p. 9
FCC's Family Farm Loan – Recipe for Success ..... p. 15
Hard Work, Ambition Yield Success in Agribusiness ..... p. 21
Partners in the True Sense ..... p. 33
"Industrial Revolution of Agriculture" Driving Change ..... p. 37
Poultry Farming Second Nature to Young Farmers ..... p. 65

1997/98

Financial Highlights

Operational	1997/98	1996/97	1995/96	1994/95	1993/94
Total Loans Receivable Portfolio					
Number	**69,846**	65,318	60,250	56,760	55,455
Amount ($ millions)	**5,318.8**	4,687.0	4,066.3	3,535.7	3,322.6
Number of loans approved	**15,488**	12,910	10,193	6,428	5,117
Amount of loans approved ($ millions)	**1,525.2**	1,402.9	1,032.7	631.9	511.7
Average size of loans approved ($)	**98,473**	108,668	101,315	98,308	100,013
Percentage of loans in good standing	**95.4**	93.7	94.9	95.9	95.0
Percentage of total owing in good standing	**94.3**	93.1	94.1	95.4	94.3
Real property held at year end					
Number	**1,787**	1,982	2,171	2,529	2,758
Value ($ millions)	**123.5**	139.6	153.5	196.6	221.5

Financial	1997/98	1996/97	1995/96	1994/95	1993/94
Revenues and Expenses ($ millions)					
Net interest income	**134.1**	141.7	105.2	99.2	87.9
Provision for credit losses	**18.7**	24.0	12.1	9.7	9.6
Net lease and real estate income	**13.0**	7.1	11.3	8.6	6.9
Other income	**9.5**	6.5	4.9	6.9	2.8
Administrative expenses	**90.1**	84.1	67.3	60.2	59.0
Income taxes	**6.2**	6.6	1.6	2.1	0.7
Net income for the year	**41.6**	40.6	40.4	42.7	28.3
Financial position ($ millions)					
Total assets	**5,706.2**	5,022.4	4,371.4	3,986.3	3,773.6
Total liabilities	**5,156.9**	4,564.7	3,951.6	3,626.7	3,456.7
Equity of Canada	**549.3**	457.7	419.8	359.6	316.9

Financial Highlights

Key Financial and Operating Data

Net income	41.6	39.4	40.6
Net interest income	134.1	136.9	141.7
Net interest margin (%)	2.50	2.60	3.03
Loans receivable	5,318.8	5,383.5	4,687.0
Arrears	29.7	40.1	29.4
Loan loss factor (%)	1.78	2.00	1.86
Administrative expenses	90.1	86.6	84.1
Administrative coverage ratio (X:1)	1.53	1.51	1.56
Return on assets (%)	0.77	0.75	0.86
Debt to equity (X:1)	9.4	10.3	10.0
Return on equity (%)	8.3	7.9	9.3

Loans Approved By Province and Enterprise

(% of portfolio)

	Cash Crops	Dairy	Hogs	Beef	Poultry	Special Traditional	Other	Value Added	Provincial % of Portfolio
B.C.	39.8%	27.0%	0.3%	8.3%	7.1%	4.2%	3.0%	10.3%	4.0%
Alberta	37.7%	10.1%	6.8%	25.5%	5.6%	2.5%	6.2%	5.6%	15.7%
Saskatchewan	74.8%	6.4%	2.4%	6.6%	0.8%	2.2%	1.4%	5.4%	18.2%
Manitoba	46.3%	15.0%	20.0%	7.9%	4.6%	3.6%	1.4%	1.2%	9.6%
Ontario	30.7%	30.7%	13.8%	3.7%	9.4%	3.9%	6.4%	1.4%	30.2%
Québec	21.9%	34.5%	12.6%	3.6%	2.5%	15.8%	7.9%	1.2%	15.1%
New Brunswick	34.1%	31.3%	2.0%	1.0%	5.1%	2.3%	2.1%	22.1%	2.4%
Nova Scotia	5.5%	54.6%	6.4%	2.2%	10.7%	6.1%	1.5%	13.0%	2.2%
P.E.I.	43.6%	27.9%	18.3%	5.5%	0.7%	0.4%	1.0%	2.6%	1.6%
Newfoundland	9.5%	72.3%	2.2%	2.5%	1.8%	2.4%	0.0%	9.3%	1.0%
National % of Portfolio	40.2%	22.2%	10.1%	8.2%	5.5%	5.1%	4.8%	3.9%	100%

Message from the President



The ideal agricultural lender knows its agricultural customers and their business and works to help realize their goals. Revered qualities are honesty and straightforwardness. Customers receive personalized service, whatever the size of their operation. Employees are knowledgeable, trustworthy and work to provide excellent products, competitive rates and timely delivery.

These are the qualities primary producers and agribusiness told us mattered in their quest for an ideal financial institution. They said FCC lives up to these expectations. And that's our bottom line. If you stopped reading right now, you would know who and what FCC stands for.

One hundred per cent focused on agriculture, FCC's business is to provide financial solutions to the agricultural sector for its continued growth. Surpassing expectations, FCC staff yielded a 13 per cent growth in loan portfolio while adapting to new work environments.

When I joined FCC in September, the momentum for the Corporation's future was building. For the first six months of 1997/98, the senior management team very capably led the organization through restructuring aimed at increasing service delivery to clients while at the same time growing the portfolio. The results speak for themselves.

Leading the Way
in Agricultural Financing

The vibrant agricultural sector – fed by pent-up demand, a buoyant economy, growing opportunities in the national and international markets and lower interest rates – has contributed to eight consecutive years of profit at FCC, growing the portfolio to $5.3 billion from $3.9 billion in 1990.

As agricultural lenders, our job is to anticipate our customers' needs and provide products and services that bring their visions to reality. Our focus is firmly fixed on primary producers and small to medium-sized value added and agribusiness clients, as demonstrated by an average loan approval of $98,473 during fiscal 1997/98.

Strongly focused on our core business: primary producers and agribusiness

FCC launched several new products aimed at encouraging primary production across Canada. Responding to a request from grape and fruit-growing producers for a product that helps alleviate start-up and renovation costs to existing orchards, FCC launched the "Plant Now – Pay Later" and "Apple Grower" Loans. In tune with industry needs, FCC introduced the Personal and Real Property, and Variable Rate loans, providing producers across the country with flexible financing options.

In the grain belt and across the various sectors of the industry, including dairy, beef, hogs and poultry, FCC's Farm Financing division helped farmers to take advantage of new markets, diversify their operations and venture into value-added industries.

Completing the circle, taking product from the field to the consumer, FCC's Agribusiness division worked with other financial institutions and credit unions to finance various enterprises on and off the farm that process, manufacture, transport, store or transform farm inputs and outputs.

FCC's vision – firmly fixed on enhancing access to capital for Canadian producers and agribusiness

To examine FCC's purpose and review our role in the agricultural environment, we invited senior representatives from the Canadian Federation of Agriculture, Credit Union Central of Saskatchewan, Agriculture and Agri-Food Canada, the Canadian Bankers Association and our Board to a senior management strategic thinking session last fall. Hearing their optimism as well as their concerns about the state of agricultural finance and views concerning FCC's role was enlightening and contributed to validating the Corporation's future direction.

Drawing upon the expertise of FCC staff across Canada, whose unique specialized knowledge bridges the worlds of agriculture and finance, we examined how FCC can best serve the sector. Recognizing that agricultural finance now stretches beyond farm finance – extending to value added and agribusiness – delivering products and services in a more diversified environment means being more diversified in our lending. This requires sharing expertise with other financial institutions and developing strategic alliances for the benefit of Canadian farmers.

We then refined our vision, dedicating ourselves to the agricultural industry as:

Visionary leaders and trusted partners, putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada.

Key 1997/98 Financials

Loan Approvals: $1.5B
Portfolio: $5.3B
Net Income: $41.6M
D/E Ratio: 9.4:1

A Year of Accomplishment

Alliances: page 25
New Products: page 68

John Ryan with FCC customer Richard McAllister on his combine near Regina during harvest.



On a sad note, I would like to acknowledge the contribution of Jim Peters, a New Brunswick Appraiser and Credit Advisor who passed away while working. His advice, "listen carefully to the farmer's proposal and work on their plan, not yours," represents the essence of what FCC is all about.

In challenging ourselves to seek creative ways of meeting the needs of the agricultural sector, we endeavor to broaden the offering of financial products and services available to all sectors, including primary producers, agribusiness and value-added enterprises.

Learning and growing is a continual process. With ongoing feedback and collaboration from other financial institutions and farm groups, and the expertise of FCC staff – whose commitment, knowledge and passion for agriculture makes us leaders in agricultural financing – FCC and this sector are on their way to an exciting tomorrow.

I am very proud to be a part of the journey.

John J. Ryan.

John J. Ryan

President and Chief Executive Officer

FCC staff: You can't buy passion. Our passion for agriculture is second to none.

Having been with the Corporation for seven months at year end, I am impressed with FCC staff throughout the Corporation. From the primary producer who grows product to the agribusiness processing product, the contribution made by our employees goes beyond figures. Many of our staff are from farms and have strong agricultural roots. They therefore possess a connection to the land and a way of life that only farmers understand.

I would like to recognize four retiring members of the senior management team whose exemplary work ethic, knowledge and commitment to agriculture have seen FCC and farmers through both good and difficult times: Bob Aumell, Executive Vice President, Special Projects; Jacques Doran, Executive Vice-President, Business Process Reengineering; Max Pierce, Executive Vice-President & Chief Economist; and Don Jackson, Vice-President, Marketing. All of us wish them the best in their future endeavors.

Message from the Chair

The cornerstone of FCC's success is relationship building – talking, listening and responding – working as a team to deliver products and services to our customers and enhance growth in the agricultural industry. Our employees' ability to reach out – farmer to farmer – has helped the industry and the Corporation grow, feeling the bumps of the difficult times and the elation of the optimistic times.

With the Corporation's new vision, FCC is renewing its commitment to the industry as "visionary leaders and trusted partners," pledging to lead the way in agricultural financing, "putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada."

In my dual role as Board Chair and Acting CEO for the eight months prior to John Ryan's appointment in September 1997, I gained a more in-depth perspective on FCC and its important role in the agricultural industry. To say that I am impressed with the dedication and commitment of FCC employees is an understatement. A passion for agriculture characterizes the men and women who work with farmers and agribusiness, a view shared by John and myself.

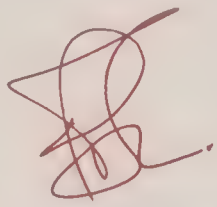
That passion, I am proud to say, extends to members of the Board of Directors. When ice storms froze and snapped power lines in Ontario and Québec, leaving farmers without heat for days, our Board colleague Marie-Andrée Mallette worked tirelessly in acquiring generators and other assistance for farmers. Lois Hole in Alberta, Rosemary Davis in Ontario and Edward Clark of P.E.I. pitched in to help.

With a strong empathy for the agricultural community and FCC's role as a leader, a partner and a lender, the Board of Directors, through its CEO Search Committee, sought a new President to lead FCC. That search culminated in the appointment of John J. Ryan, who possesses a background in finance and a strong connection to rural communities. His belief in corporate citizenship shows in his extensive involvement in every community he has lived in, from the little town of Mulgrave, Nova Scotia where he grew up to the big city of Montréal, his home immediately before joining FCC at its Regina home base.

A strong leader, John Ryan assumed his role with vitality, energy and commitment. Within two months, he had travelled Canada's length and breadth to meet with customers, farm groups, financial institutions and FCC employees. He led the Corporation in determining a new direction, consulting employees, customers, stakeholders and other lenders. Six months later, the Corporation established its new vision. He truly possesses the kind of spirit FCC is known for.

Under John Ryan's leadership, FCC is sure to be more visible and proactive in communities across Canada, working together, building a strong foundation for the future. On behalf of the Board of Directors, we look forward to working with John Ryan and all FCC employees as we continually seek new ways to serve Canada's ever-changing and growing agricultural community.

Respectfully submitted on behalf of the Board of Directors,



Donald W. Black
Chair, Board of Directors



Ray's Garden:

A Customer's Appreciation, FCC's Pride

Fourteen kilometres southwest of Saskatoon, Saskatchewan, outside a country eatery and gift shop, is a garden where visitors sit in lawn chairs under patio umbrellas. A river rolls by, its flat banks dense with Saskatoon-berry bushes. At the entrance of the garden, a three-foot-high cast-iron sign says, "Ray's Garden."





Ed, Darlene and Ray – looking forward to a new season. ***(right)***

Spring Creek Berry Barn owners Ed and Darlene Derdall, and their daughter and son-in-law, Natalie and Grant Erlandson dedicated the garden to FCC Account Manager Ray Wagner because his suggestion to build the garden eased their minds during a time when solutions seemed to have run out.

"On this particular day, we were having doubts about it all," Darlene remembers. Due to environmental regulations, they knew they had to move the old-style hip-roof barn from the river. Besides costing additional money in topsoil and sod, Darlene was devastated that the move would destroy the view of the river from the eatery. Feeling defeated with only two months before opening day, Darlene, Ed, Grant and Natalie met with Ray at the FCC office.

"Ray could sense something was wrong. I told him I couldn't see this working for us. Then he started talking – 'you know, Darlene, have you ever thought of developing a garden with a walkway, putting in lawns, patio tables and umbrellas – I would far sooner sit outside and watch the river go by than sit inside anyway . . .'

"My mind started to whirl. Everything was going into place. I was excited again. Ready to go. It was the perfect day for Ray to help us. Very few lenders have the compassion that that man has – and he's very professional too."

"I didn't want to see this one go under for three reasons," Ray said. "One, it's a landmark. Two, it's a major money-maker. And three, I like Saskatoon-berry pie. I also felt the Derdall and Erlandson families were the right people for this business. This feeling was also shared by the vendors. I was just glad that we could help them realize their dreams."

Canadian Biotechnology

Internationally Recognized



Credit Advisor Robert Gelinas with Mario Désaulniers.

Despite the fact that embryo production is highly technical and specialized, the foundation for Louis' success is basic: Simply put, "a satisfied client is a client for life," says Louis.

Loubel Holsteins Inc., a family-owned and operated purebred Holstein farm in Saint-Boniface, Québec, is internationally recognized as a supplier of top-quality embryos, selling Holstein embryos to more than 15 countries including Japan, Brazil, Ireland, Germany, Italy and France.

Louis Désaulniers established his operation 20-odd years ago. He believes its success is due partly to hard work and partly to his vision to achieve market globalization.

"I've always been a forward thinker, constantly seeking to improve my herd and investing accordingly," says Louis. "My goal was to develop a top quality herd."

In the last 15 years, 21 of his cows have been named "All Canadian" and "All American" champions. In 1995, one of his cows was named Canadian Champion for Protein. Louis judges at provincial, national and international shows, which helps him to develop relationships with dairy producers in other countries.

"The development of rural Canada, where nine million Canadians live and generate a substantial share of this country's economic output, is a top priority for the Government of Canada. Farm Credit Corporation's constant innovation in designing financing plans tailored to the specific needs of primary producers and agribusiness – most of whom naturally are located in rural communities – makes the Corporation a valued partner with rural Canada in meeting the challenges and opportunities presented by the global economy."

– The Honourable Lyle Vanclief, Minister of Agriculture and Agri-Food





In our quest to be visionary leaders and trusted partners in agricultural financing, we leverage our knowledge and expertise, applying teamwork, initiative and problem solving, to bring producers' visions to light. Their success is our measurement of success.

Objectives:

FCC Measures Up!

Performance Against Objectives 1997/98



Visionary Leaders

Our role is to be forward thinking, anticipating what farmers and agribusiness need. Our solutions must be above the ordinary . . . and they must be beneficial to the customer.

Objective 1

Pursue customer-driven organizational change

Absolutely everything we do must benefit the customer, from the first farm visit to administering the loan for its duration to final payout. Service must be professional, friendly, efficient and timely. To meet these expectations, the Corporation has continued to streamline processes first initiated with reengineering in 1995/96.

Specialized processing centres were created at the beginning of fiscal 1997/98 to support the "behind-the-scenes" journey of a loan, from analysis, concurrence and disbursement to loan administration. In addition to FCC's network of over 100 field offices across the country, FCC's national internal service centre processes personal property loans (such as equipment and livestock) and real property loans (such as land and buildings) as well as loans for other purposes sourced by FCC staff or by our alliance partners. Seven centres across the country are completely devoted to loan administration, disbursements and loan approvals, freeing time for personalized service and enhanced customer relations. This internal restructuring also completely separated risk management from the line lending functions, corresponding with modern risk management practices.

Ensuring an optimum level of customer service during restructuring was a high priority. FCC retained staff experience and expertise throughout the transition period by relocating staff with their functions where needed. Employees participated in change-management training sessions as well as information sessions on new work processes.

The result? Greater efficiency and faster turnaround times for loans of all sizes.

Immediately following the restructuring, we asked a sample group of 220 customers if they had noticed a difference in the level of service they received from one of our operational centres or from field staff. The majority told us that we had indeed supplied optimum service and many even noted that service was faster.

Innovation

Putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada is our only business.



Objective 2

Fulfill customer expectations for best total cost, dependability and convenience, and ensure products are delivered in a planned, systematic, client-friendly manner.

In today's fast-paced global environment, it is essential for customers to receive timely, accurate and useful information that enables them to reach their goals and objectives. FCC must provide this kind of service to earn customer trust, respect and confidence. We determined the best way to do this was by improving, designing and implementing business information systems.

FCC continued updating technological architecture and evaluating alternatives to improve or replace its integrated loan accounting and financial management system. The Corporation has also developed an action plan to ensure readiness for the new millennium, including raising customer awareness of the need to prepare for the Year 2000.

The Corporation developed and implemented a corporate-wide training program to provide staff with professional skills and increased knowledge of FCC's loan management systems. The program provides a benchmark measuring progress. A post-training evaluation of its effectiveness will identify where follow up is needed.

Trusted Partners

We take time to get to know our customers and their business. We understand their needs. We value our relationships and partnerships with key stakeholders in the industry. Strategic alliances benefit our customers.



Objective 3

Enhance access to capital and other financial services for agricultural customers by developing new products and services and exploring agribusiness market potential.

Technology, travel and communication have opened up markets for Canadian agricultural producers. In order for Canadian producers and agribusiness to capitalize on these opportunities, FCC established an Agribusiness division to complement the Farm Financing division. Each is devoted to assisting Canadian agribusiness and primary producers respectively in achieving their full market potential.

FCC announced several new products developed in consultation with producer groups to meet the particular financial needs of certain specialized enterprises. The Plant Now – Pay Later Loan for the grape and winemaking sector, and the Apple Grower Loan, both industry requested, help offset necessary costs associated with replanting and expansion to grow high-quality fruit to meet customer demands. In the aquaculture sector, FCC is a major source of credit. In the grain belt and in other parts of the country, FCC has provided knowledge, understanding and timely financing to producers diversifying their operations and developing value-added enterprises.

In step with growth in the agribusiness sector, the Corporation worked with other financial institutions – including banks, credit unions and other suppliers of capital – to provide funding packages for projects such as inland grain terminals, feed mills, specialty seed processing plants, potato processing, specialty cheese processing and meat processing facilities.

Endeavoring to make access to capital easier and more convenient for producers and agribusiness, FCC established alliances with equipment dealers, livestock brokers and agricultural suppliers. FCC's Agribusiness division reports a net volume of $155.0 million compared to virtually no lending to agribusiness five years ago. FCC will further develop products and services and expand partnerships as the needs of the agribusiness sector evolve.

Power

Agriculture is powered by people – farm communities, farm families and all those supporting the industry. FCC's ability to be a powerful and integral player begins with the employees who serve Canadian agriculture.



Objective 4

Create an environment that results in dedicated and resilient employees by introducing and implementing a new compensation system.

While upgrading information systems and changing the way we work is important, FCC recognizes that the human factor is the most essential component in delivering the most effective solutions possible to our customer.

FCC implemented a new compensation system that links incentives to performance and bases salary progression on the development of strategic competencies.

Core competencies of knowledge and expertise, teamwork and leadership, customer service, problem solving, achievement orientation and communication skills have been integrated into all aspects of FCC's Human Resource programs. These strategic competencies, first introduced in recruitment and core curriculum developed for training purposes, are now part of the compensation system. As a next step, the core competencies system will be integrated into succession planning and management development.

Viability

The real value of possessing a vision is having a clear destination. In concert with each customer's vision to realize success in their business, we provide products and services that add value. Viability is an essential ingredient for success.

Objective 5

Achieve a desired return on equity that contributes to a sound capital structure, thereby enhancing the Corporation's viability.

Strong financial performance during 1997/98 contributed to FCC's goal of long-term financial viability, demonstrated by an improved loan portfolio quality and a better-than-planned capital structure, in spite of increased expenses necessary to continue restructuring and reengineering. Marking eight consecutive years of profit, FCC earned a net income of $41.6 million, a slight improvement over last year's net income of $40.6 million.

The Corporation achieved an 8.3 per cent return on equity (ROE), better than the 7.9 per cent target. In 1996/97, the ROE was 9.3 per cent. The lower ROE reflects a greater level of administration costs and diminished gains from special programs introduced in earlier years.

FCC's equity base grew by $91.6 million during the year from profits and $50 million received from the Government of Canada. This equity injection demonstrates the federal government's long-term commitment to Canadian agriculture and FCC's role as a leader in agricultural financing. FCC's growth in equity allowed for expanded lending volumes while maintaining a sound debt-to-equity position. FCC's debt-to-equity ratio improved to 9.4:1 compared to 10.0:1 in the previous fiscal year as a result of increased lending.



In 1997/98, the Corporation achieved an ambitious goal, set in 1994, to build a $5 billion loans receivable portfolio by 1999. FCC staff reached this goal one and a half years ahead of schedule. FCC's substantial growth in lending, spurred by the introduction of new products such as the Variable Rate and Personal Property Loans, and a healthy lending environment, is proof that FCC excels at providing lending services to farmers and agribusiness.

Agricultural Financing Across Canada

Relationships with customers, key stakeholders and financial specialists create a synergy that benefits all. By working together, we can provide solutions to meet our customers' needs.

Objective 6

Provide financial services to farmers and agribusiness that are consistent with government objectives for rural economic development.

Recognizing that strategic partnerships and alliances create greater value for our customers, we actively developed partnerships with other industry stakeholders, financial institutions and credit unions to broaden the offering of financial services available to Canadian producers and agribusiness. These partnerships help us combine resources, products and services, offering the whole spectrum of services to shared clients.

FCC continued providing programs and services on behalf of Agriculture and Agri-Food Canada. The National Biomass Ethanol Program (NBEP) encourages firms to invest in the Canadian ethanol industry and makes it easier for producers to obtain private sector funding. Business Planning for Agri-Ventures (BPAV) gives farmers access to planning expertise in order to increase the success rate of agricultural and value-added business initiatives in rural Canada.



After a two-year pilot, the Cattle Options Pilot Program (cOPP), a federal program administered by FCC, wound down following the recommendations of its advisory committee. Agriculture & Agri-Food Canada will continue to explore the possibility of listing a cattle option on a Canadian exchange by the fall of 1998. New cOPP options were available until October 23, 1997.

Objectives 1998 – 2003

Building Relationships That Last



FCC Credit Advisor Bill Adam with David Glover at Madaglo Farms near Campbellford, Ontario.

Relationship building is at the core of our business. We know that the customer of today and beyond expects service from people who not only understand their business, but also work with them to help achieve their goals.

Everything we do at FCC must support our vision of leadership and partnership with the agricultural community. Our corporate objectives for the next five years are tied to our five strategic thrusts: Purpose, Viability, Alliances and Partnerships, Product Development and Visibility.

1998 - 2003 Objectives

Enhance customer satisfaction and radically improve internal efficiency through business process reengineering and the strategic use of technology to position FCC for the new millennium. A formal mechanism will be established to measure satisfaction which will become a major component of employees' performance evaluation.

Maximize employee potential through the creation of a comprehensive human resources management framework by developing a succession planning program and management development programs, which will complement initiatives already in place. A review of the current pension plan will be conducted. Recommended changes will be implemented in 1999/2000. Our highly motivated staff, wholly committed to serving our customers, will ensure that we succeed in achieving our vision and objectives.

Ensure sustained financial viability to enable FCC to consistently work with farm families and agribusiness to achieve their vision. Specific goals include developing and implementing an Integrated Risk Management program, and improving priority management and resource allocation. FCC will continue working toward a sound capital structure. FCC's goal for 1998/99 is to achieve a return on equity of 6.6 per cent while growing a quality portfolio by $407 million, improving the margins in accordance with the targets set and continued expense containment. Striving for the lowest available funding costs, FCC will diversify its funding base and develop new sources of capital.

Develop, promote and deliver agricultural financial solutions that meet the needs of primary producers and agribusiness by listening and working with customers and industry stakeholders. FCC will allocate additional resources to develop and launch new products.

Actively and consistently communicate FCC's purpose, vision and services to customers, stakeholders, and financial lenders. Personal contact will continue to be FCC's strength. The Corporation's priority is to ensure producers, processors, farm groups, and other lenders understand its direction towards becoming a visionary leader and trusted partner in agricultural financing. Raising awareness and broadening its accessibility into the next millennium, FCC will develop and launch an Internet site and develop a national speaker's bureau.

Enhance Canadian agriculture through proactive development and implementation of corporate affairs and public policy initiatives based on a thorough understanding of shareholder and stakeholder expectations. The Corporation will strengthen liaison with both groups, including through the establishment of a government affairs office in Ottawa. FCC will continue to serve as an effective delivery vehicle for government policy on agricultural issues on a cost-recovery basis.

FCC's Family Farm Loan – A Recipe for Success

Marilyn and Ken Danielson

of Last Mountain Stock Farms are venturing into hog production, filling an appetite for pork in Japanese and U.S. markets. FCC's Family Farm Loan is an important part of their recipe for success.

Taking the first step toward realizing their goal, the Danielsons sold their cattle and expanded their land base, purchasing five quarters from two different vendors with FCC's Family Farm Loan. This loan, unique to FCC, allows the seller to receive all proceeds over five years while the buyer pays less interest and builds equity faster.

"Without the Family Farm Loan, it wouldn't have happened because the down payment would have been prohibitive," says Mike McAllister, Credit Advisor.

"We really appreciate the trust FCC put in us. They place confidence in us, giving a lot of room to grow," says Ken.



FCC Wins Auditor General of Canada's Award



Auditor General of Canada L. Denis Desautels (centre) presents the award to John J. Ryan (left) and Donald W. Black, Chair, Board of Directors (right).

In March 1998, Farm Credit Corporation was awarded the *Auditor General of Canada's Award for Excellence in Annual Reporting by Crown Corporations* for the 1996/97 Annual Report and Corporate Plan. This is the second consecutive year that FCC has won this prestigious award.

"The receipt of this award for the second year in a row is confirmation that the Auditor General of Canada recognizes and concurs with FCC's belief in accountability and our way of doing business."

– John J. Ryan, FCC President & CEO

FCC
Lending a Helping Hand in the *Community*

Farming is a way of life and business like no other: one day reaping Mother Nature's bounty, the next, battling her wrath. Over the past 80 years, there have been the good times and there have been times when FCC has been put to the test — when the stakes have gone beyond the bottom line. These are the moments when commitment, passion and understanding really count.









Clockwise from top left:

Bruno Savoy, Assistant Vice-President and Credit Adviser Paul van de Wiel hard at work during an FCC-sponsored aquaculture client barbecue in St. Andrews, New Brunswick.

Ted Young, communications Matt Sinter, winner of the Young Speakers for Agriculture Program.

Guests Mayor Joe Young, Federal Minister of Agriculture and Agri-Food Lyle Vanclief, Ontario Minister of Agriculture, Food and Rural Affairs Noble Villeneuve, and FCC Chief Executive Officer John Ryan officially open FCC's new Guelph office.

Farm Credit corporate office employees and friends support the Heart and Stroke Foundation by riding in the annual Heart Beat Bike Tour.

CEO John Ryan presents door prize to farmer Chris Hume at Regina District's customer appreciation night.

Alana Ford, Administrative Assistant, corporate office is a proud member of the Sandra Schmirler rink, Canada's Olympic Gold Medal Women's Curling Team.

Celebrating the Good Times

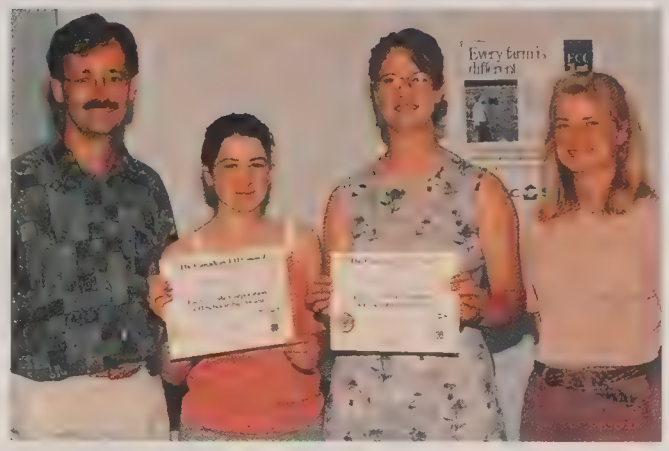
FCC sponsors agricultural related events across Canada such as the Royal Winter Fair; Canadian Dairy Farmers Annual Meeting; Farm Progress Show; National Logging and Forestry Show; Canadian Western Agribition; Canadian Poultry Industry Council; London Poultry Show; Atlantic Aquaculture Explosion Conference and Fair; and the Canadian Young Farmers Forum.

A proud sponsor of 4-H and FRAQ in Québec, FCC's 4-H Scholarship Program offers 16 scholarships of $1,000 each to rural youth pursuing a post-secondary education.

FCC was the title sponsor of a permanent soil display at the Saskatchewan Science Centre. The display, entitled *Discovery Jones's Fantastic Farming Adventure*, is made up of 26 interactive displays promoting farming. It is the first hands-on interactive farming exhibit in the world, with a focus on providing educational resources for tomorrow's farmers.

FCC lends its support and encouragement to dozens of other worthy causes and community activities across the country including: Farm Safety Night in Shakespeare, Ontario; *Fondation Éducation Coopérative*; Nova Scotia Agricultural College; Peace Region Farm Women's Seminar; the Wascana Institute for American Sign Language; the Breast Cancer Action Walk; Western Heritage Centre; and Ranch Ehrlo Society, a group which assists troubled adolescents.

In 1997/98, FCC contributed more than $425,000 in agricultural sponsorship and donations to communities.



FCC Credit Advisors Duane Guina and Kendra Mueller present the FCC 4-H Scholarship to Kelley Willison and Wendy Moellenbech.

"I would like to take the opportunity to extend my sincere thanks for the scholarship you awarded me. It is comforting to know that organizations such as yours are taking measures to ensure a proper education and a prosperous future for rural youth. Your generosity is greatly appreciated and will be put to good use."

– Jason Brownridge,
Student and recipient of the FCC 4-H Scholarship.

Below: **Credit Advisor Les Pilsner wins bareback event at the Canadian Cowboy Association Finals Rodeo in Lloydminister.**



Adopt-A-Family – *a program that gives back in smiles*



"When I made my delivery to one of the families, I arrived at bath time. Two very wet pink cherubs came running to the door with mom – towels in hand. The oldest, at four, had a good idea of what was going on. When she looked up with bright eyes and asked if I was from the North Pole, my heart melted. "

– Michel Hermann, Information Technology, Programmer/Analyst

Commitment to the family and community are values not only felt, but lived among FCC staff in their support and enthusiasm for the Adopt-A-Family program which supports families experiencing difficulty.

Corporate office employees sponsored families at Christmas time with Christmas dinner, toys, clothes and personal computers. They discovered the real gift is in giving.

"It made me realize how people go through tough times and how important it is to help others. " – Kimberley Hembroff, Administrative Support, Agri-Land.

Staff in the Moncton office actively support the Adopt-A-Family program with food, bedding, kitchen supplies and school supplies as well as by donating money to the school breakfast program all year.

"When it comes to people in need, the Moncton staff are always willing to lend a helping hand and give back to the community." – Marie-France Kenny, Official Languages and Translation Officer.

United Way – *supporting Farmers with Disabilities*

FCC demonstrated its commitment to those in need with enthusiastic support of the United Way Campaign through employee "fun-raising" contributions and matched donations from the Corporation.

FCC sponsored Farmers with Disabilities, a group under the United Way umbrella which offers support to farmers and their families who have undergone major accident traumas, chemically induced illness, chronic pain, stress health and financial strain.



Corporate office staff rallied behind the United Way, participating in the local fire truck push competition.



Reaching Out During the Bad Times

The spring of 1997 and early winter of 1998 saw Mother Nature at her most powerful, affecting farmers East and West. In Southern Manitoba, the Red River flood devastated agricultural communities, leaving many farmers with destroyed homes and eroded soil. During this difficult time, FCC staff lent a hand with sandbagging to keep the waters back.

Mother Nature again unleashed her fury, this time on Eastern Ontario and Western Québec. The ice storm of January 1998 paralyzed communities, destroying trees and leaving many farmers without power for days or weeks.

Employees contributed to the relief efforts, personally helping in their communities and distributing generators that were shipped in from other areas including the United States. FCC responded with financial contributions to the Ontario Rural Relief Fund and to the *Union des producteurs agricoles du Québec's (UPA) Fondation de la famille terrienne* relief fund for ice-storm victims.

In both instances, FCC responded immediately, helping customers overcome the challenges of rebuilding by offering support and advice and providing additional loans or adjusting existing loan terms.

"It is one thing to lose material items and buildings or have damage to land, but they can all be rebuilt, replaced or repaired. However, lives cannot be replaced and we are thankful to God that very few lives were lost."

– FCC Office Assistant Suzanne Gagnon whose house lost the battle against rising flood waters. FCC staff pitched in from across the country to help out with a donation.

Top right: **Marie-Andrée Mallette, FCC Board Member, M. Laurent Pellerin, président, Union des producteurs agricoles du Québec, and FCC Assistant Vice-President Jacques Lagacé pose with FCC's presentation cheque for ice storm relief.**

Bottom right: **Leslie Jacobson, Keystone Agricultural Producers, accepts FCC's $25,000 cheque for Manitoba Farm Flood Relief from Armand Leclerc, Assistant Vice-President.**



"Many residents are still not back in their homes and many farmers will be feeling the effects of the flood for years to come."

– FCC Credit Advisor Bonnie Hagborg of Morris, Manitoba

Senior Management



back row from left to right:

M. Blake Walker, *Vice-President and Treasurer*

Marshall Stachniak, *Vice-President, Farm Financing*

André Tétreault, *Assistant Vice-President, Corporate Audit*

Dale Canham, *Vice-President, Planning, Legal and Government Relations*

Russ Holm, *Executive Vice-President, Operations (retired May 8, 1998)*

Greg Stewart, *National Project Director, Business Process Reengineering*

Terry Kremeniuk, *Vice-President, Agribusiness*

Doug Higgins, *Vice-President, Service Centres*

front row from left to right:

Kellie Garrett, *Vice-President, Communications & Public Relations*

Moyez Somani, *Chief Financial Officer*

Donald Stevens, *Vice-President and Controller*

Louise Neveu, *Executive Vice-President, Operations*

Terry Craig, *Vice-President, Risk Management*

John J. Ryan, *President and Chief Executive Officer*

Linda Yeo, *Vice-President, Information Technology*

Inset from left to right:

Janet Wightman, *Vice-President, Human Resources & Administration*

Don Jackson, *Vice-President, Marketing & Product Development (retired March 31, 1998)*

FCC's Senior Management Team

plays a key role in guiding the Corporation, championing its direction, inspiring and empowering employees to put the power of our specialized knowledge to work for farm families and agribusiness across Canada. This group of 17 men and women set strategy in accordance with FCC's vision and corporate goals as well as balanced the Corporation's ability to absorb change by choosing initiatives to maximize results. Representing every facet of the Corporation from operations to support functions, the Senior Management Team ensures all critical information is considered in decision making. The team regularly reviews progress on all projects and initiatives, sharing current issues regularly and reviewing strategic direction and corporate performance quarterly.

Members are expected to act in good faith, exercise care, skill and diligence in accordance with the *Financial Administration Act*. They must adhere to the highest ethical standards of business, professional and personal conduct, including avoidance of conflicts of interest as specified in the *Employee Conduct and Ethics Policy*. At all levels, FCC management is committed to making FCC a positive, professional and ethical environment in which to work.

Senior Management is compensated in keeping with compensation policies and scales approved by the Board of Directors. Compensation for the Chief Executive Officer position ranged from $140,000 to $175,000; Executive Vice-President and Chief Financial Officer compensation ranged from $89,680 – $130,580; and compensation for Vice-Presidents ranged from $75,930 to $110,560. All executives are paid within their respective ranges and receive a variable component linked to the performance of the Corporation, the business unit and the individual. On average, this payout represents 10 per cent of salary. Total cash compensation paid to all senior management, including the CEO, for fiscal 1997/98 was $1,594,056.

Hard Work, Ambition *Yield* Success *in Agribusiness*



Len and Grace Krahn of Birchwood Dairy run a successful agribusiness that includes a 180-cow dairy, processing plant and retail outlet in Abbotsford, British Columbia, specializing in kosher dairy products.

"Len was always the push behind things. When you are young and ambitious, things happen," says Grace.

Things happened all right. Beginning with a 20-head cow operation in 1964, the Krahns now employ five people on the farm and eight more in the processing plant, including their four children. The coffee shop/ice cream parlor employs 10 people.

Birchwood Dairy was the Krahns' dream, brought to fruition by the hard work of the whole family and realized with the assistance of FCC Account Manager Diana Barchard.

"We can't say enough about the help Diana has been to us," says Grace. "She really got us on our feet when we were expanding and is always there to help us work through those financial challenges."

Management Discussion and Analysis



Visitors at Green Week in Berlin, Germany sample Canadian salmon. In international markets, the Canadian maple leaf is recognized as a symbol of quality.

The concept of working together, being innovative and creative is a core value shared by agricultural communities across Canada. Primary producers, value-added enterprises and agribusiness have long understood the concept of collaboration – forming cooperatives, working together for a common goal. Farm families represent partnerships that extend beyond blood ties, with sons and daughters, hired hands and the agri-food sector working interdependently – moving product from the field to the table.

These strong roots position primary producers to adapt to the demands of the new global marketplace where world trade and technology have virtually redefined agriculture. The farmgate is now open to new cultures, ideas, concepts and expanding markets. In this highly competitive environment, consumer demands have changed toward processed foods and specialty products in some markets, while other market demands reflect Canadian appetites for leaner meat. Industries such as fresh-water and salt-water aquaculture, estate wineries, hydroponic greenhouses and wild game farming and processing have rapidly grown in the past decade. The agricultural sector has changed from a focus on producing to processing, value added and delivery to customers.

The agriculture and agri-food sectors expect to see greater demand as the population continues to grow. Positive indicators for the Canadian agricultural economy begin with growing global trade and a strong competitive position. The demand for credit, at a record high in 1996, remained strong through 1997. Overall, the Canadian farmer's balance sheet is healthy at 85 per cent equity and is comparable to the U.S. farmer's. Land values have been increasing steadily for the past four and a half years but are expected to increase at a much slower rate. Recognizing the inherent risks in focusing efforts on a single commodity, the agricultural community is diversifying and employing business practices to offset exposure to risk. The success of the sector is having an impact both at home and abroad. The value of gross output (including inputs and outputs) of all sectors linked to the agriculture and agri-food industry is $95.5 billion.

Operating Environment

Factors Affecting Canadian Agriculture

While the Canadian agricultural sector is experiencing a positive environment for growth, there are challenges on the horizon.

Environmental Issues: The sector is affected by increasing environmental concerns about waste management and chemical use, especially in more populated areas. Food quality and safety continue to be important.

Traditional farm groups most directly affected by environmental issues are those near urban areas and intensive cattle, poultry and hog operations facing the challenge of dealing with unpleasant odors and waste disposal.

FCC works with the industry to deal with environmental challenges by including environmental assessment standards in the lending process, which ensure agricultural operations meet accepted environmental standards; and by referring customers to environmental experts when necessary. The Corporation also promotes environmental awareness in customer publications.

Technology: In today's competitive market, advancements in technology have virtually brought worlds and markets together. Through telephone and computer access, information is available instantaneously. With information and opportunity virtually at their fingertips, producers act with flexibility, accuracy and timeliness, using advances in biotechnology and selective breeding and feeding developments. Responding and taking advantage of new developments are essential to future success as Canadian producers compete domestically and globally. FCC supports customers in taking advantage of technological benefits to realize goals for long-term viability and increased productivity.

Technology also is revolutionizing the financial services sector, opening more access channels, affording choices in service delivery. To ensure that our customers receive quality products and services at competitive prices, FCC restructured and reengineered business processes, streamlining service delivery channels.

FCC has not lost sight of the fact that customers still demand personalized service. Our field staff visit customers on the farm, at the processing plant and at the kitchen table.

Social/Demographic: The face of agriculture is expected to change extensively in the next decade as the farm population ages. From 1991 to 1996, the numbers under 35 years of age have declined from 78,000 to 61,000. The average age of operators is now 48. This presents some challenges for the agricultural financing sector to find innovative ways to help older farmers to receive an appropriate return on their investment when they decide to sell or transfer their farms while alleviating prohibitive start-up costs for developing farmers. Through products such as the Family Farm Loan, FCC facilitates intergenerational transfers and is working to develop additional products to address this issue.

Global Trade Policy Drives Change

A number of changes in agricultural policy both at home and abroad are impacting various industries across Canada. Trends toward global trade liberalization and the elimination of trade-distorting subsidies are creating more opportunities and risk as a result of greater competition in the international markets.



Canadian agricultural policy also is being affected by these trends as evidenced by the conclusion of the Western Grain Transition Payments Program (WGTPP) which largely affects producers in Saskatchewan and Manitoba. Producers are now paying the full cost of shipping their products to market, which has prompted them to grow crops that will maximize their return and to delve into markets more likely to produce

"Decision-making processes have changed as producers and processors focus on market needs. Producers have to get their products to market and make money at the end of the day. As a result, we are seeing more creativity and innovation on the part of our customers to maintain competitiveness"

– Terry Kremeniuk, Vice-President, Agribusiness

greater financial benefits. As farmers look for competitive ways to increase their return, on-farm diversification is becoming common practice.

Structural changes, such as railway branchline closures, have encouraged the next generation of grain handling facilities, inland grain terminals, replacing the many prairie grain elevators that have served the industry for many years.

Completing the circle: FCC's Farm Financing and Agribusiness divisions – from primary production to consumer products.

Globalization and increased competition demand that producers respond to the market with high-quality products at a competitive price. Challenges associated with increased cost of inputs, changing grain prices and less government program payouts may indicate a decline in farm net income. To ensure success and growth in the agricultural industry as a whole, FCC has devoted resources to both the primary producer and agribusiness through its Farm Financing and Agribusiness divisions.

International and domestic demand for higher value products are resulting in growth in the agribusiness and value-added sectors, which is having a positive impact on primary producers as new avenues for their products open up.

"Continued growth in value-added initiatives and a strong agribusiness sector create economic activity that benefits the agricultural industry as a whole. The more value added, the more primary production is needed and supported," says Marshall Stachniak, Vice-President, Farm Financing.

"Decision-making processes have changed as producers and processors focus on market needs. Producers have to get their products to market and make money at the end of the day. As a result, we are seeing more creativity and innovation on the part of our customers to maintain competitiveness," says Terry Kremeniuk, Vice-President, Agribusiness.

To provide the next step in production, getting the product from the "gate to the plate," FCC is working with other partners to help producers take advantage of new opportunities, such as building new grain terminals to clean product ready for export. Through FCC's Agribusiness division, the Corporation actively works with other financial lenders to meet the financial needs of agribusiness, equipment dealers, feedlots and processing plants.

"Continued growth in value-added initiatives and a strong agribusiness sector create economic activity that benefits the agricultural industry as a whole. The more value added, the more primary production is needed and supported"

– Marshall Stachniak, Vice-President, Farm Financing

Alliances and Partnerships

"Working together, we can create a more positive, long-term environment for growth for the Canadian agricultural industry."

– John J. Ryan, President and CEO

As the agricultural industry continues adapting and changing, FCC is committed to putting its expertise to work for our customers by identifying and filling gaps in the marketplace to seize opportunities. That involves being proactive, keeping our vision fixed squarely on the future, fulfilling our role as a lender and an industry partner.

Just as farmers are developing alliances with suppliers to deliver an end product to the marketplace and looking at ways to manage risk within their operations, so is FCC developing partnerships and alliances with other lenders in the financial community in support of new business opportunities for the sector. The Corporation is committed to making this a natural part of everyday business to ultimately improve products and services offered to clients.

A Memorandum of Agreement with the Business Development Bank of Canada (BDC) assures seamless delivery to FCC and BDC customers in rural communities and assists agribusiness and farming-related business to grow by making available the coordinated services of both corporations. FCC collaborated with Export Development Corporation (EDC) to meet the financial needs of producers and processors to assist them in managing risks associated with exporting.



FCC collaborated with Export Development Corporation (EDC) to meet the financial needs of producers and processors and to assist them in managing risks associated with exporting.

Breaking new ground in the agricultural financial services sector, FCC is working with various financial institutions, expanding product availability and flexibility for mutual agricultural customers.

"Alliances between FCC, financial institutions, and credit unions is a triple-win situation. The client has a wide array of products to choose from, and benefits from the combined expertise of other lenders and FCC. The key is discussion and cooperation at a local level." – Roger Shier, Assistant Vice-President, Agribusiness.

"Developing strategic alliances is one of the Corporation's key strategic thrusts," says John Ryan, President and CEO. "I have met with various senior members of banks and credit unions across Canada to apprise them of FCC's future direction toward developing and building relationships for the benefit of Canadian agriculture.

"Our core business is to provide term financing to primary producers, farm families and small and medium-sized agribusinesses. Working together we can create a more positive, long-term environment for growth for the Canadian agricultural industry. Opportunities also exist for FCC to work with other organizations to co-finance larger transactions that would prove to be beneficial to our customers and both financial organizations. We are offering our expertise in the agricultural environment in conjunction with financial institutions and the customer will be the winner."

Operating Results

1997/98 Highlights

- Net income of $41.6 million is slightly above last year's result of $40.6 million.
- Fiscal 1997/98 was the fifth consecutive year of loan portfolio growth, up $631.8 million or 13 per cent.
- In 1997/98, net lease and real estate income was $5.9 million above last year. The number of acres returned to producers (98,082) exceeded the previous year's results (77,582).
- Cost of operations or administrative expenses of $90.1 million were higher than the $84.1 million reported in 1996/97. The administrative coverage ratio was 1.53:1, slightly lower than 1.56:1 last year.
- Return on equity of 8.3 per cent was below last year's results, largely due to a capital injection of $50 million from the Government of Canada.
- Debt-to-equity ratio for 1997/98 has improved to 9.4:1 from 10.0:1 in the previous fiscal year.

Current Year Lending by Enterprise

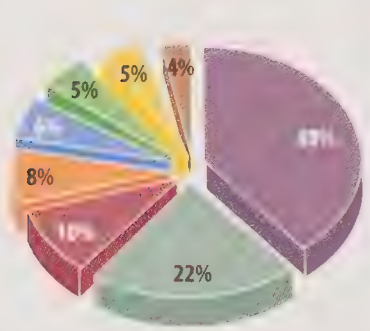
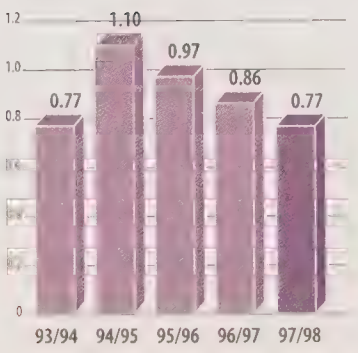


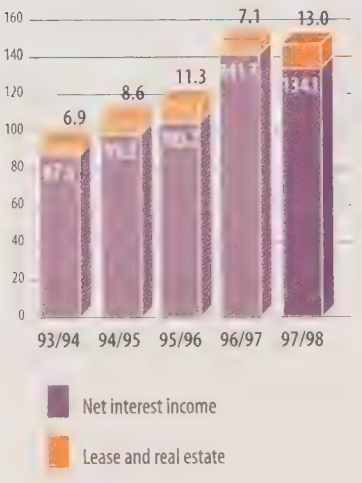
Table 1 – Key Financial and Operating Data

Net income	41.6	39.4	40.6
Net interest income	134.1	136.9	141.7
Net interest margin (%)	2.50	2.60	3.03
Loans receivable	5,318.8	5,383.5	4,687.0
Arrears	29.7	40.1	29.4
Loan loss factor (%)	1.78	2.00	1.86
Administrative expenses	90.1	86.6	84.1
Administrative coverage ratio (X:1)	1.53	1.51	1.56
Return on assets (%)	0.77	0.75	0.86
Debt to equity (X:1)	9.4	10.3	10.0
Return on equity (%)	8.3	7.9	9.3

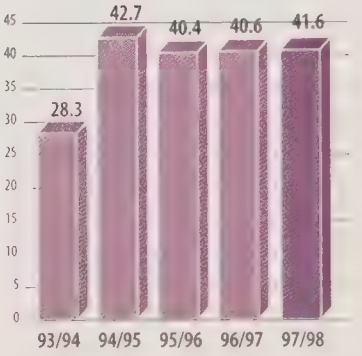
Return on Assets
(%)



Net Revenues
($ millions)



Net Income
($ millions)



Lending Activity

1) Volume of Business

Net income of $41.6 million for the year ended March 31, 1998 is slightly higher than last year's result of $40.6 million and $2.2 million better than the budgeted net income of $39.4 million. This favorable variance is a result of strong loan growth, stringent management of net interest income margins, strong results from the real estate portfolio and increases in other income.

FCC approved a record 15,488 loan applications with a net value of $1.5 billion. This activity represents a 20 per cent increase in the number of loans approved and a nine per cent increase in the dollar value compared to last year's results. The average loan size in 1997/98 was $98,473 compared to $108,668 in 1996/97 -- a decrease resulting from increased lending for equipment and livestock purchases.

Fiscal 1997/98 results reflect a financially healthy agricultural industry, stable interest rates and commodity prices, increased alliances and partnerships for FCC, a continuing trend in the agricultural community towards diversification of business into new markets, and a cautiously optimistic outlook for the future of agriculture.

Net loan disbursements during 1997/98 totalled $1.5 billion, representing a $161.3 million or 12 per cent improvement over 1996/97 and exceeding budget expectations by $41.2 million.

FCC offers renewals on maturing loans to customers who demonstrate both the willingness and ability to repay debt. Of those offered renewals, 95 per cent accepted, choosing to remain with FCC. This renewal rate is slightly ahead of last year's result of 94 per cent.

FCC views this high level of renewals as a positive measure of client satisfaction, an indication that FCC is meeting the needs of the agricultural community through its product and service delivery.

2) Loan Product Selection

For the year ended March 31, 1998, FCC clients chose lending terms that were fairly evenly divided between terms of less than five years (52 per cent) and five years or more (48 per cent). This is consistent with the choices made by our clients in the two previous years. Lending to both cash crop and dairy enterprises continues to dominate new lending activity, representing 40 per cent and 22 per cent respectively.

Table 2 – 1997/98 Key Lending Results

Net loan disbursements	1,504.2	1,463.0	1,342.9
Loan renewal rate (%)	95.0	94.0	94.0
Loans receivable	5,318.8	5,383.5	4,687.0
Loan loss factor (%)	1.78	2.00	1.86
Arrears	29.7	40.1	29.4

In addition, FCC has diversified its lending, serving a greater variety of enterprises, as evidenced by increases in new lending to hog, poultry, value-added and other enterprises.

3) Agribusiness and Alliances

Agribusiness and alliance agreements contribute to the economic diversification and strength of Canadian agriculture, helping to build a strong future for producers and their communities.

Of the approved 15,488 loan applications, 16 per cent were a direct result of partnerships and alliances. FCC's Agribusiness division reports a net volume of $155.0 million compared to virtually no lending to agribusiness five years ago.

Loan Portfolio

1) Loans Receivable Portfolio

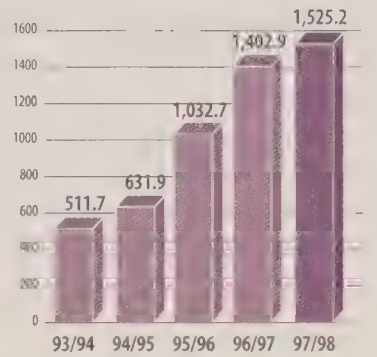
Fiscal 1997/98 was the fifth consecutive year of portfolio growth, up $631.8 million from $4.7 billion at March 31, 1997. This increase represents a growth rate of 13 per cent (15 per cent in 1996/97) bringing the loans receivable portfolio to $5.3 billion at March 31, 1998.

Over the past three years, loans receivable portfolio growth has averaged 15 per cent or $594.4 million. This success is due to the following factors:

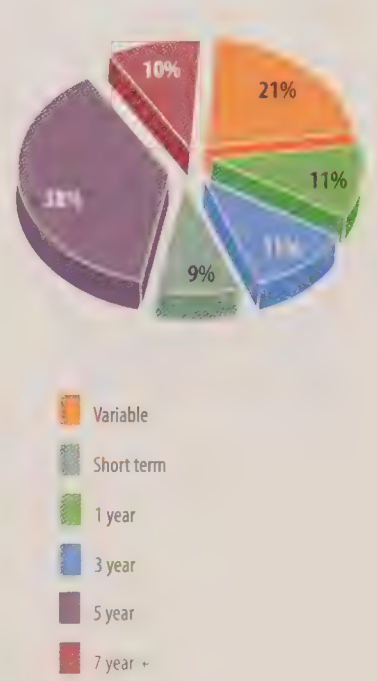
- continued financial strength and diversification in the Canadian agricultural industry;
- initiatives to strengthen existing relationships with clients and to establish new FCC customers by understanding their needs and delivering products to match; and

Net Amount of Loans Approved

($ millions)



Current Year Lending by Loan Term



Loans Receivable Portfolio
($ billions)

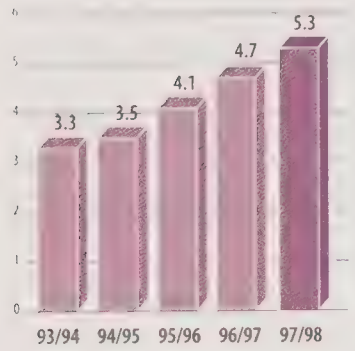


Table 3 – Loans Receivable Portfolio as at March 31

British Columbia	1,872	233.2	1,805	246.9
Alberta	8,497	765.8	7,696	605.0
Saskatchewan	22,975	1,174.9	21,336	1,066.9
Manitoba	7,771	481.1	7,718	431.0
Ontario	16,573	1,586.8	15,409	1,382.6
Québec	8,294	731.1	7,786	640.5
New Brunswick	1,827	149.0	1,837	143.8
Nova Scotia	734	79.7	517	61.4
Prince Edward Island	1,079	95.4	1,024	88.3
Newfoundland	224	21.8	190	20.6
National	69,846	5,318.8	65,318	4,687.0
Allowance for credit losses		182.7		165.4
Loans Receivable, net of allowance for credit losses	69,846	5,136.1	65,318	4,521.6

- establishing mutually beneficial partnerships and alliances with other members of the agricultural community.

Total Canadian agricultural debt at December 31, 1996 as reported by Statistics Canada was $27.2 billion, with FCC holding 16 per cent market share, unchanged from one year earlier. Since 1986/87, the outstanding value of Canadian agricultural debt has increased by 13 per cent from $24 billion. At that time, FCC held 21 per cent of the total debt outstanding. Declining market share over this 10-year period occurred as a result of an increased number of sources of credit in the agriculture market and a strengthening of commitment to agriculture by other financial institutions.

2) Allowance for Credit Losses

The allowance for credit losses is management's estimate of probable credit losses (established as described in Note 2c to the financial statements) embedded in the loans receivable portfolio at the end of the year. The allowance is comprised of:

- a specific component to value loans specifically identified as impaired at their estimated realizable amount; and
- a general component in respect of loans for which impairment has not been specifically identified.

At March 31, 1998, the allowance for credit losses was $182.7 million, an increase of $17.3 million or 11 per cent from the previous year end. The allowance represents 3.4 per cent of the total loans receivable portfolio which, as a percentage, remains relatively unchanged from the two previous years. The related provision for credit losses was $18.7 million at March 31, 1998, compared to $24.0 million at March 31, 1997.

3) Portfolio Quality

The long-term viability of FCC is dependent on following policies established to ensure that the Corporation is not exposed to an unacceptable level of risk.

FCC uses financial modeling techniques to calculate a credit risk factor that estimates potential loss. It is a leading indicator in the management of risk on new lending. The risk factor at March 31, 1998 on new loans approved was 1.78 per cent, below target of 2.00 per cent and slightly less than the previous year's risk factor of 1.86 per cent. This improvement over the previous year is due to greater diversity in the loan portfolio, application of prudent lending policies and a stronger agricultural economy.

Loan portfolio quality is assessed using two key measures: the total arrears as a percentage of loan principal outstanding and the aging of arrears. After having shown improvement for five consecutive years, both of these indicators were relatively unchanged in comparison to the previous year.

Arrears at March 31, 1998, defined as the principal and interest payments past due, totalled $29.7 million and represent 0.57 per cent of principal outstanding. This is comparable to results one year earlier when total arrears were $29.4 million, representing 0.64 per cent of principal outstanding.

The aging of arrears experienced nominal change with arrears over one year at March 31, 1998 totalling $13.6 million or 46 per cent of total arrears.

4) Financial Performance of Lending and Funding Activities

Total interest income of $431.0 million for the year ended March 31, 1998, offset by an interest expense of $296.9 million, resulted in net interest income (NII) of $134.1 million, below budget by $2.8 million or two per cent. NII for 1997/98 is below last year's NII by $7.6 million due to reduced special lending program revenue.

Loans receivable income of $408.2 million is $21.6 million below budget due to higher-than-anticipated loan prepayment and interest rate buydowns combined with a lower rate environment.

"Financial viability cannot be achieved by any one individual in the corporation. Successful organizations require the commitment and contribution of every employee working as a team. Each one of us plays a vital role."

– Moyez Somani, Chief Financial Officer

Total interest expense of $296.9 million is $7.8 million less than budget. This favorable variance was a result of funding activities that took advantage of market opportunities and a lower rate environment than envisioned.

Net interest margin was 2.50 per cent at March 31, 1998, below last year's result of 3.03 per cent and below the budgeted target of 2.60 per cent. The decrease from last year's result is due to the significantly lower revenue received from special programs (net interest margin for 1996/97 would have been 2.61 per cent without revenue from special programs). The unfavorable variance from budget is a result of a higher level of short-term investments than budgeted. Short-term investments, held for liquidity purposes, provide low margin yields.

Table 4 – Lending Risk and Arrears by Enterprise at March 31

Cash Crops	2,391.2	1.69	0.7	2,136.2	1.82	0.8
Dairy	1,235.9	0.29	0.2	1,155.9	0.42	0.2
Beef	489.3	1.38	0.9	411.3	1.95	1.6
Hogs	411.4	3.54	0.4	346.5	3.37	0.5
Poultry	275.3	0.39	0.2	246.0	0.26	0.4
Value-added	124.4	5.04	1.2	75.3	6.13	0.9
Special traditional	169.8	3.79	0.9	70.0	3.69	0.9
Other	221.5	3.23	0.8	245.8	3.90	0.8
National	**5,318.8**	**1.78**	**0.57**	4,687.0	1.86	0.64

Arrears

($ millions)

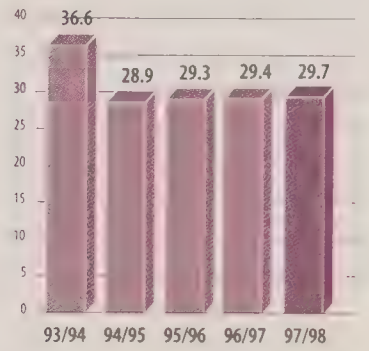


Table 5 – Net Interest Income

$ millions			
Interest Income			
Loans receivable	408.2	429.8	406.4
Investments	22.8	11.8	13.4
	431.0	441.6	419.8
Interest Expense			
Loans payable	267.4	274.8	255.9
Short-term notes	29.5	29.9	22.2
	296.9	304.7	278.1
Net Interest Income	134.1	136.9	141.7
Average Interest-bearing Assets			
Loans receivable	5,002.9	5,063.0	4,376.6
Investments	353.7	200.0	301.7
Average Loans Payable			
Short-term notes	846.7	680.0	602.0
Long-term notes	3,908.3	3,943.6	3,602.5
Net Interest Margin (%)	2.50	2.60	3.03

Real Estate

Lease and Real Estate Operations

FCC's Agri-Land division manages the land portfolio and has a mandate to lease and eventually return land to the original owner where feasible. FCC is meeting its mandate: 80 per cent of the current year's total sales were to former owners. During the 1997/98 fiscal year, sales of 98,082 acres totalled $28.0 million, significantly higher than last year's sales of 77,582 acres for $17.8 million.

Sales were offset by acquisitions of $2.8 million, which resulted in a closing real estate portfolio of $123.5 million with 725,703 acres. This compares to the previous year's holdings of $139.6 million with 823,841 acres.

At March 31, 1998, 98 per cent of the land held by FCC was leased, up slightly from 96 per cent at the end of 1996/97. Of those leased acres, approximately 97 per cent were leased to former owners.

Net lease and real estate income for the year ended March 31, 1998 was $13.0 million, higher than last year's result by $5.9 million and $5.3 million above plan. This improvement over last year and budget are due to the gains on increased land sales, increases in lease rates, combined with a reduction in the carrying cost of property due to lower interest rates.

Table 6 – Agri-Land Property Holdings at March 31

British Columbia	433	433	0.2	433	0	0.2
Alberta	8,297	8,000	3.0	11,279	8,796	3.7
Saskatchewan	680,556	665,833	109.7	771,187	743,410	123.1
Manitoba	33,917	33,917	7.4	37,274	36,924	8.1
Ontario	2,123	1,898	2.8	2,752	1,981	3.5
Québec	73	0	0.1	168	0	0.2
New Brunswick	1	0	0.0	191	0	0.2
Nova Scotia	302	302	0.3	548	0	0.6
Prince Edward Island	0	0	0.0	0	0	0.0
Newfoundland	1	0	0.0	9	0	0.0
National	725,703	710,383	123.5	823,841	791,111	139.6

Gains on the disposal of property are consistent with the increase in farmland values over the past four and a half years and represent a partial recovery of substantial property write-downs incurred in prior years. Gains for fiscal 1997/98 were $9.2 million, an increase from the $6.6 million earned in 1996/97 when property sales were substantially lower.

Other Income

Comprised mainly of appraisal revenues, recovery of insurance administration costs and service fees, other income for the year ending March 31,1998 totalled $9.5 million, exceeding last year's results of $6.5 million and ahead of plan by $3.0 million. The increase in other income over last year was a result of funds received from FCC's insurance carrier, partially offset by a reduction in appraisal revenue.

Table 7 – Lease and Real Estate Income

Real Estate Income			
Real estate revenue	13.6	12.7	13.6
Real Estate Expenses			
Real estate expenses	2.9	2.7	2.9
Interest expense	6.9	10.3	10.2
	9.8	13.0	13.1
Lease and Real Estate Income	3.8	(0.3)	0.5
Gain on disposal of property	9.2	8.0	6.6
Net Lease and Real Estate Income	13.0	7.7	7.1

Non-Interest Expenses

Administrative Expenses

Administrative expenses were $90.1 million for the period ending March 31, 1998, compared to $84.1 million last year and to the budgeted amount of $86.6 million. The increase over last year's actual and budget is mainly the result of the larger infrastructure required to support our expanding business.

During fiscal 1997/98, through a major restructuring with related cost implications, FCC established seven new service centres across Canada to provide enhanced customer service and increase efficiencies for the Corporation.

At March 31, 1998, the administrative coverage ratio, a measure of the resources available to meet operating expenses, was 1.53:1, slightly lower than 1.56:1 last year, but exceeding the target of 1.51:1.

Income Taxes

Income tax expense of $6.2 million is $1.2 million over budget but lower than last year's $6.6 million. The unfavorable variance from budget is a result of a temporary surtax under Part VI of the *Income Tax Act* (implemented by Revenue Canada) and budget assumptions that did not include the capital injection of $50 million received from the Government of Canada.

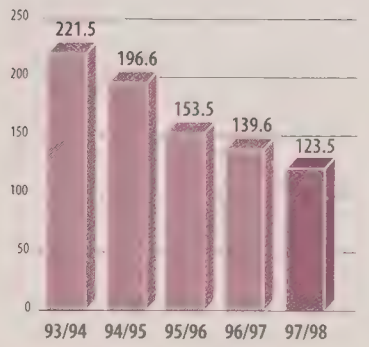
Discussion of Financial Ratios

The debt-to-equity ratio at March 31, 1998 was 9.4:1, comparing favorably to the previous year end ratio of 10.0:1 and exceeding the target ratio of 10.3:1. The debt-to-equity ratio improved due to a $50 million capital injection from the federal government and net income of $41.6 million. This was partially offset by growth in outstanding debt necessary to support a larger portfolio. The Corporation is well within the legislated maximum debt-to-equity ratio of 12.0:1.

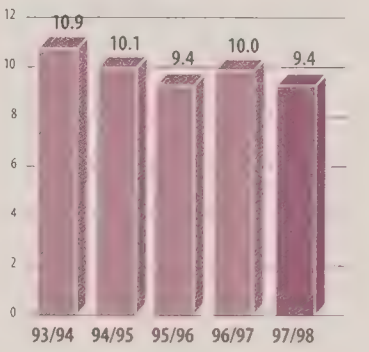
Return on equity at year end was 8.3 per cent (budget was 7.9 per cent) versus 9.3 per cent at March 31, 1997. The difference from last year's result is largely due to the capital injection of $50 million.

Return on assets is below last year's result and slightly above budget. At March 31, 1998, return on assets was 0.77 per cent compared to budget of 0.75 per cent and last year's result of 0.86 per cent. The return on assets for 1997/98 is lower than last year due to reduced special programs revenue.

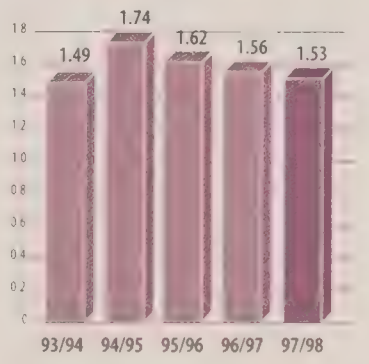
Real Estate Portfolio
($ millions)



Debt-to-Equity Ratio
(X:1)



Administrative Coverage Ratio
(X:1)



Net Income Stabilization Account Program (NISA)

At the end of the second year of providing NISA services, 23,206 clients had invested $91.7 million dollars with FCC. This result is well below our target.

During the year, FCC conducted an extensive review of existing services, including NISA and consulted with farm groups and industry in the process. It was determined that the Corporation's renewed focus on its mandated core services to primary producers and small to medium-sized agribusiness means that the deposit-taking function required to offer NISA services does not mesh with the future direction of the Corporation.

FCC has decided to withdraw from NISA as a deposit-taking institution, as it is likely an area better served by other financial institutions. As at March 31, 1999, FCC will no longer hold NISA accounts.

The Corporation is working with the NISA Administration to ensure the smooth transition of all current FCC NISA customers to other financial institutions. FCC continues to strongly support participation in the NISA program as a good business decision for producers.

Outlook

With the softening of some commodity prices and the anticipated drop in farm net income, the Corporation expects lending to stabilize at current levels. Loan loss and risk levels are expected to also remain stable as producers continue to diversify and explore new opportunities.

Plans include the continued sale of land holdings back to producers. FCC expects future land sales to be lower than1997/98 levels due to uncertainties related to commodity prices.

Meeting the challenges of the Year 2000 and beyond is a major priority at FCC. The Corporation is well on its way to ensuring Year 2000 compliance of all systems, supporting hardware and software components. Research into infrastructure, networks and workstations is complete. Changes to the mainframe operating system, hardware and software are progressing on schedule. FCC is working with software vendors to ensure that existing products are Year 2000 compliant. Completion is targeted for December 1998, allowing a full year for quality assurance prior to the new millennium.

Table 8 – Key Financial Data and Forecast

Loans receivable	5,747.6	5,318.8
Net loan disbursements	1,320.5	1,504.2
Loan renewal rate (%)	96	95
Loan loss factor (%)	2.00	1.78
Arrears	40.9	29.7
Real estate portfolio	112.3	123.5
Admin. expenses	87.3	90.1
Net income	36.9	41.6
Admin. coverage ratio (X:1)	1.53	1.53
Return on assets (%)	0.61	0.77
Debt-to-equity ratio (X:1)	9.9	9.4
Return on equity ratio (%)	6.6	8.3

Partners in the True Sense



Madogio Farms is a partnership in the truest sense of the word. This family-run dairy operation, named after Mark and David Glover, is a home, business and a future for the couple and their three children, Laura, Carolyn and James.

Since buying their first farm near Campbellford, Ontario in 1986, the Glovers have increased their operation in a careful, prudent manner, moving ahead only when the time was right, knowing when change was necessary to succeed.

"We started with 25 head of Holsteins, about 100 acres in vegetable cash crops and winter wheat and 150 acres of cattle feed," remembers David. "We expanded to 60 cows overnight and have increased to 400 working acres."

Using best practices such as good genetics, high quality rations and milking three times a day, the Glovers have increased production by 2,000 kilograms/cow/year or a total of 140,000 kilograms of bulk milk. In 1996, they won an award for the highest producing dairy herd in Northumberland county and eighth highest in Ontario.

In 1997, the Glovers installed a naturally vented, 100-head free-stall barn, which they plan to fill to capacity over the next five years, as they acquire more quota and land to increase productivity while ensuring a sufficient land base for cropping and manure disposal.

"I found out farming is where my heart is," David says. "Mark and I really hope one or two of our kids will want to farm. If they do, we could expand again."

Discussion and Analysis

Treasury Management

Market Risk Management Overview

FCC's financial performance is impacted by the management of market risks that include foreign exchange and interest rate risk. FCC utilizes a formal risk management structure to oversee the management of market risks. The Corporation's Board of Directors sets risk policies and limits consistent with best business practices and in accordance with the Minister of Finance's *Financial Risk Management Guidelines for Crown Corporations*.

Risk limits relate the maximum amount of earnings variability and economic value risk the Corporation will accept from adverse movements in interest rates and foreign exchange rates. FCC's Asset/Liability Committee (ALCO) consists of senior management and is chaired by the President & CEO. It formulates policy and oversees foreign exchange and interest rate risk, and liquidity management on behalf of the Board of Directors.

Foreign Exchange Risk Management

Foreign exchange risk is caused by fluctuations in foreign exchange rates. The Corporation has a policy of fully hedging all foreign currency exposures to eliminate the potential foreign exchange risk associated with adverse movements in foreign currencies.

Interest Rate Risk Management

Lending activities expose the Corporation to interest rate risk (IRR), the potential adverse impact on FCC's earnings and economic value emanating from changes in interest rates. IRR can result from mismatches in the repricing of assets and liabilities and/or from embedded options related to lending products (i.e. loan rate guarantees and prepayment features). Repricing mismatches result from gaps in the amount of assets and liabilities maturing or repricing in a given period. The magnitude of interest rate exposure depends on the degree of mismatch and interest rate change. Embedded option risk exists when loan products contain prepayment features that allow borrowers to prepay debt before the scheduled maturity date. Based on past experience, approximately five per cent of the portfolio prepays annually. In 1997/98, loan prepayments of $416.9 million were received.

IRR exposures are monitored and managed to ensure compliance with policy risk tolerance limits established by the Board of Directors. Asset/liability management ensures that interest rate changes will not have a material adverse impact on net interest income or the capital position of the Corporation.

A variety of techniques are used to measure, monitor, and control interest rate risk including duration analysis, gap reporting and simulation and sensitivity analysis. FCC measures IRR exposures with an asset/liability modeling system that simulates changes in net interest income (NII) and market value of portfolio equity (MVPE) for changes in the yield curve. Given FCC's interest rate position at March 31, 1998, assuming an immediate and sustained increase of two percentage points in interest rates, NII would be lower than planned by approximately $1.7 million or 1.2% over the next 12-month period. This exposure is well within the NII variation limits approved by the Board of Directors. In addition, the market value of both assets and liabilities is calculated to determine the MVPE. Assuming an immediate and sustained two per cent increase in interest rates, MVPE would be lower by approximately $23.3 million. This exposure is within the MVPE variation policy limit.

Market Sensitivity– March 31, 1998

Net interest income variability	(1.7)	(0.1)
Economic Value (MVPE) variability	(23.3)	7.8

Gap positions are also monitored to provide complementary financial control to the more sophisticated NII and Market Value analysis models. Gap analysis measures the difference in the amount of assets and liabilities and off-balance sheet instruments maturing or repricing in specified time periods. Gap positions may positively or negatively impact earnings depending on the nature or sensitivity of the gap and the future direction of interest rates. The Corporation strives to measure option-adjusted gap positions and manage its gap positions to ensure that interest rate changes will not have a material negative impact on the Corporation's earnings and economic value of capital.

Liquidity Risk Management

The goal of liquidity management is to maintain sufficient cash resources to meet customer and business operational requirements in a cost-effective manner. Liquidity risk is the risk that the Corporation may not have sufficient funds to meet all cashflow obligations. In this regard, FCC maintains policies that establish parameters for cash management, asset liquidity and diversified funding.

Liquidity coverage as measured by the liquidity ratio (ratio of cash and investments to total assets) increased to 6.8% in 1998 compared with 6.4% in 1997.

An additional component of effective liquidity management is the continual development and enhancement of a stable and diversified funding base.

Short-term funding sources include:

- *a domestic Commercial Paper Program;*
- *chartered bank lines of credit; and*
- *government funding sources.*

FCC also enhances its liquidity position by accessing international capital markets for medium-term funds as required and when market opportunities present themselves.

Off-Balance Sheet Management

Derivatives

Derivative instruments are used to manage interest rate risk and foreign exchange exposures. As an end user of derivatives, FCC also employs derivatives for funding and investment management purposes.

The Corporation actively uses off-balance sheet derivative instruments, including interest rate and currency swaps, options, forward contracts and equity-linked swaps, to hedge or modify interest rate and foreign currency exposures arising from funding, risk management and investment activities.

As at March 31, 1998, the total notional amount of outstanding derivative contracts was $1,648 million compared to $1,403 million as at March 31, 1997.

Pursuant to financial risk policy guidelines, derivative positions and risk exposures are reported monthly to ALCO and quarterly to the Board of Directors.

The following table highlights the primary types and uses of derivative instruments:

RISK MANAGEMENT	• Interest rate swaps for duration adjustment ; • Options on interest rate swaps (swaptions) to hedge prepayment and commitment risk; and; • Caps, floors, and collars to manage interest rate risk exposures.
FUNDING	• Currency swaps and foreign exchange contracts to eliminate foreign currency risk; and; • Equity-linked swaps and interest rate swaps to manage risks associated with structured funding transactions.
INVESTMENT MANAGEMENT	• Forward rate agreements (FRA's) to lock in investment returns and to hedge short-term funding costs.

Derivative Credit Risk

Credit risk associated with derivative activities pertains to the potential for a counterparty to default on its contractual obligations to FCC. The Corporation uses "dollars at risk" (DAR) methodology to manage credit risk in its derivative portfolio. DAR is based on statistical probability estimates of the potential losses FCC could experience. DAR includes the current market cost of replacing the derivative plus an add-on factor which is an estimate of the potential future change in the value of the derivative to maturity.

Derivative positions and credit risk exposures are continuously monitored and regularly reported to ALCO and the Board. As at March 31, 1998, FCC had no material credit exposures to counterparties.

Funding Activity

FCC uses domestic and international capital markets to fund its loan portfolio and business requirements.

FCC has three formal programs to source funds from international and domestic capital markets:

- *a short-term domestic Commercial Paper Program;*
- *a domestic Medium-Term Note (MTN) Program; and*
- *a Euro Medium-Term Note (EMTN) Programme.*

FCC continues to explore new borrowing programs and opportunities both in domestic and international money and capital markets in order to diversify its investor base and to generate cost-effective funds.

Short-Term Funding

As at March 31, 1998, outstanding short-term borrowings were $946 million compared to the balance outstanding as at March 31, 1997 of $748 million. This increase is attributed to a larger portion of short-term debt supporting the mortgage portfolio in 1998.

Medium and Long-Term Funding

During 1997/98, FCC borrowed a total of $1,022 million in medium and long-term funds, up from $809 million in 1996/97.

Medium and Long-Term Borrowing

for the fiscal Year Ended March 31, 1998

$ Millions

Capital Market Borrowings	
Domestic Medium and Long-Term Notes	524
Domestic Structured Notes	363
Euro MTN Programme Notes	135
Total	**1,022**

In 1997/98, FCC issued $887 million in notes under its Medium-Term Note Program, of which $363 million were structured notes.

Based on anticipated new lending activity and depending on market conditions, aggregate new medium and long-term borrowings are estimated to be in excess of $1.0 billion annually over FCC's five-year planning period.

"FCC continues to explore new borrowing programs and opportunities both in domestic and international money and capital markets in order to diversify its investor base and to generate cost-effective funds."

– M. Blake Walker, Vice-President and Treasurer

'Industrial Revolution of Agriculture'

Driving Change



The Jacobson Legacy: four generations of farming that began with Anna and Ernest in the 1940s

Les and Robert Jacobson have seen agriculture evolve from their parents' modest single-quarter grain farm in Arborg, Manitoba to the diversified 3,500 acre mixed cash crop and 2,800 hog operation that they now run with Les' two sons, Jeff and David.

"These times are like the industrial revolution of agriculture. Everything is different with technological advancements. Seeing the signals for change is essential to succeed," Les says.

"The farms that stayed still and didn't take advantage of fertilizers, chemicals and technology seemed to die out," Robert agrees. "Using modern techniques along with computers and crop rotations is essential."

Since 1967, when they purchased their initial 178 acres with their father's help, to the present day, Les and Robert have listened to the signals and responded; in 1970, they diversified with hogs and expanded. "We could see that we needed a second outlet for our grain," Robert says.

"The farms that stayed still and didn't take advantage of fertilizers, chemicals and technology seemed to die out. Using modern techniques along with computers and crop rotations is essential."

– Robert Jacobson

Increased freight costs prompted the Jacobsons to branch out from growing exclusively wheat to growing barley, canola, and flax as well as producing forage seed. About half the acres they farm supply feed to their growing hog operation. Like their parents, they went to FCC to purchase land and equipment.

Past-president of Keystone Agricultural Producers, Les believes that research and development are essential to making educated choices. "You have to go further down the food chain and get into processing. That requires making well-informed decisions."

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, a committee which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis, and the auditors have full and free access to the Audit Committee.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.



John J. Ryan
President and Chief Executive Officer



Moyez Somani
Chief Financial Officer

Regina, Canada
May 15, 1998

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Auditor's Report

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Corporation as at March 31, 1998 and the statements of operations and retained earnings/(deficit) and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an audit opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 3l, 1998, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Corporation Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 15, 1998

Balance Sheet

AS AT MARCH 31

	1998	1997
	(thousands of dollars)	
ASSETS		
Cash and short-term investments (Note 3)	$ **237,605**	$ 241,014
Accounts receivable and other accrued assets	**44,158**	28,928
Long-term investments (Note 4)	**149,613**	79,227
Loans receivable (Notes 5 and 6)	**5,136,138**	4,521,604
Real estate acquired in settlement of loans (Note 7)	**123,481**	139,629
Equipment and leasehold improvements	**15,208**	12,065
	$ **5,706,203**	$ 5,022,467
LIABILITIES		
NISA investments held (Note 8)	$ **93,754**	$ 17,552
Accounts payable and accrued liabilities	**19,748**	27,373
Short-term notes (Note 9)	**945,658**	747,667
Other liabilities and deferred fees (Note 10)	**35,080**	18,273
Loans payable (Note 11)	**4,062,676**	3,753,877
	5,156,916	4,564,742
EQUITY		
Capital (Note 1 and 12)	**507,725**	1,118,333
Retained earnings/(deficit) (Note 12)	**41,562**	(660,608)
	549,287	457,725
	$ **5,706,203**	$ 5,022,467

The accompanying notes are an integral part of the financial statements.

Approved:

Donald W. Black
Chair, Board of Directors

Warren Ellis
Chair, Audit Committee

Statement of Operations and Retained Earnings/(Deficit)

FOR THE YEARS ENDED MARCH 31

	1998	1997
	(thousands of dollars)	
INTEREST INCOME		
Loans receivable	$ 408,237	$ 406,351
Investment income	22,762	13,420
	430,999	419,771
Interest expense	296,857	278,053
Net interest income	134,142	141,718
Provision for credit losses (Note 6)	18,748	23,986
Net interest income after provision for credit losses	115,394	117,732
LEASE AND REAL ESTATE INCOME		
Lease and other revenue	22,808	20,299
Operating expenses	2,853	2,960
Interest expense	6,948	10,264
Net lease and real estate income	13,007	7,075
OTHER INCOME	9,464	6,519
INCOME BEFORE OTHER EXPENSES	137,865	131,326
OTHER EXPENSES		
Administrative expenses	90,078	84,104
Income taxes (Note 13)	6,225	6,628
Other expenses	96,303	90,732
NET INCOME FOR THE YEAR	41,562	40,594
Deficit, beginning of the year	(660,608)	(698,502)
Reallocation of contributed capital to eliminate deficit (Note 12)	660,608	–
Dividends (Note 1)	–	(2,700)
RETAINED EARNINGS/(DEFICIT), END OF THE YEAR	$ 41,562	$ (660,608)

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Financial Position

FOR THE YEARS ENDED MARCH 31

	1998	1997
	(thousands of dollars)	
OPERATING ACTIVITIES		
Net income	$ **41,562**	$ 40,594
Items not involving cash		
Provision for credit losses	**18,748**	23,986
Change in accrued interest receivable	**(24,648)**	6,243
Change in accrued interest payable	**33,015**	(1,058)
Other	**11,356**	22,043
Cash provided by operating activities	**80,033**	91,808
INVESTING ACTIVITIES		
Long-term investments	**(71,894)**	(18,042)
Loans receivable disbursed	**(1,504,200)**	(1,342,900)
Loans receivable repaid	**870,697**	704,275
Change in real estate held	**16,148**	13,839
Other	**15,010**	(9,051)
Cash used in investing activities	**(674,239)**	(651,879)
FINANCING ACTIVITIES		
Loans repaid to Canada	**(503,963)**	(134,014)
Loans from capital markets	**1,014,311**	808,139
Loans repaid to capital markets	**(243,744)**	(378,136)
Increase in capital	**50,000**	–
Change in short-term notes	**197,991**	291,298
Change in NISA investments held	**76,202**	17,552
Dividends paid	**–**	(2,700)
Cash provided by financing activities	**590,797**	602,139
(Decrease) increase in cash and short-term investments	**(3,409)**	42,068
Cash and short-term investments, beginning of the year	**241,014**	198,946
Cash and short-term investments, end of the year	$ **237,605**	$ 241,014

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. The Corporation

a) Authority and Objectives

Farm Credit Corporation (the Corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown Corporation named in Part I of Schedule III to the *Financial Administration Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the Farm Credit Corporation with its Corporate Office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role is to enhance rural Canada by providing specialized and personalized financial services to family farms and those businesses in rural Canada that are related to farming. Additionally, the Corporation delivers specific programs for the Government of Canada on a cost-recovery basis.

b) Capital

Capital of the Corporation consists of capital contributions made by the Government of Canada net of a reallocation to eliminate the accumulated deficit approved effective March 31, 1998. Further details regarding this reallocation are described in Note 12.

As of March 31, 1998, capital payments received from the Government of Canada amounted to $1,168 million (1997 – $1,118 million). The statutory limit for that same period was $1,175 million (1997 – $1,125 million).

c) Dividends

No dividends were declared or paid in the current year (1997 – $2.7 million).

d) Limits on Borrowing

The *Farm Credit Corporation Act* restricts the total direct and contingent liabilities to 12 times the equity of the Corporation. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 1998, the Corporation's total liabilities were 9.4 times the equity of $549.3 million (1997 – 10.0 times the equity of $457.7 million).

2. Significant Accounting Policies

a) Investments

Investments comprise the balance sheet categories of short-term investments and long-term investments. Interest income, gains and losses on disposal, amortization of premiums and discounts and write-downs to market value are reported in investment income.

Short-term investments are acquired primarily for the purposes of liquidity and are intended to be held for less than one year. Short-term investments are carried at cost. However, where the market value has declined significantly, short-term investments are written down to market value.

Long-term investments are securities with terms to original maturity in excess of one year. These investments are acquired primarily for the purposes of asset/liability management and for the management of funding opportunities in advance of cash requirements.

Long-term investments which were acquired for asset/liability management are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. Gains and losses on the disposal of these investments are included in current year income.

Long-term investments which were acquired for the management of funding opportunities in advance of cash requirements act as hedges against changes in future borrowing rates. These investments are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. To estimate the true cost of funding, gains and losses on the disposal of these investments are amortized on a straight-line basis and applied to interest expense over the life of the related funding instruments.

b) Loans Receivable

Loans receivable is stated net of the allowance for credit losses.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is well secured and in the process of collection.

Interest income is recorded on the accrual basis until such time as a loan is specifically classified as impaired. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. All payments on the loan are credited against the recorded investment in the loan. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the provision for credit losses. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans. Other loan fees are recorded as other income on the same basis as the related costs.

c) Allowance for Credit Losses

The allowance for credit losses represents management's best estimate of credit losses on its loans receivable in the light of current trends. It has a specific and a general component.

Based on a loan-by-loan review, the specific component is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general component, which is prudential in nature, is established in respect of loans for which impairment has not been specifically identified. In establishing the general component of the allowance, management models historic portfolio migration trends and loss percentages and applies them to loans receivable balances categorized into risk pools. As a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, in establishing the general component of the allowance, management also considers the impact of specific factors, such as land value trends, economic trends, federal and provincial government programs, commodity prices and climatic conditions. Since future agricultural and economic conditions are not predictable with certainty, actual loan losses may vary from management's estimate.

The allowance is increased by provisions for credit losses and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

d) Real Estate Acquired in Settlement of Loans

Real estate, whether held for the production of income through leasing or held for sale, is initially recorded at the lower of the recorded investment in the foreclosed loan and the fair value of the underlying security at the time of acquisition. The fair value of the security is the amount which could be realized in an arm's-length disposition considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Subsequent to acquisition, real estate leased for the production of income is carried at the value recorded on acquisition and is not written down for declines in the estimated fair value unless they are significant and permanent.

The carrying value of real estate held for sale is adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition.

Lease and other revenues from real estate are recorded when earned. Gains and losses arising from the disposal of real estate are included as a component of lease and other revenues.

e) Equipment and Leasehold Improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% annum
Computer equipment and software	Straight-line	3 years
Leasehold improvements	Straight-line	Lease term plus the first renewal option

f) Capital Leases

Leases that transfer substantially all of the benefits and inherent risks of ownership of the leased property to the Corporation are capitalized by recording the present value of the lease payments as assets and liabilities. The leased property is then amortized to income (using the straight-line method) over its estimated useful life which in most cases will correspond to the lease term. Lease payments are recorded partly against the amount of the obligation and partly to interest expense.

g) Translation of Foreign Currencies

Loans receivable/payable and interest receivable/payable in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Interest income and expense denominated in foreign currencies are translated into Canadian dollars at the average month-end exchange rates prevailing throughout the year. Exchange gains or losses arising from the translation of foreign denominated debt and interest expense are reported net of the exchange gains and losses on the related currency exchange agreements and are included as a component of interest expense.

h) Loans Payable

The difference between the ultimate amounts payable (at the initial exchange rates if the loans payable are denominated in foreign currency) and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Interest settlement amounts for loans with equity-linked interest are estimated using the related index level as at the balance sheet date and included in accrued interest. Changes in the estimated settlement amounts during the year are included as a component of interest expense.

i) Derivative Financial Instruments

In order to manage its exposure to currency and interest rate risks, the Corporation uses various types of derivative financial instruments such as currency, interest rate, and equity-linked swaps, forward rate agreements and interest rate options. These instruments include contracts designated and effective as hedges as well as asset/liability contracts which alter the Corporation's overall interest rate profile. The Corporation does not use derivative financial instruments for speculative purposes.

Currency exchange agreements

Amounts receivable or payable under currency exchange agreements are disclosed separately from the related foreign currency denominated loans receivable or debt and are translated into Canadian dollars at rates prevailing on the balance sheet date. The translated amounts are disclosed net of any amounts payable or receivable in Canadian dollars under these contracts. The net balance is reported as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Currency exchange gains and losses arising from currency exchange agreements are included in current income as a component of interest expense. The cost of these agreements is amortized on a straight-line basis over the life of the contract and the amortization is reflected in interest income or expense. The unamortized balance is included as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Interest rate agreements

Periodic payments arising under swap and forward contracts are accounted for on an accrual basis with net accrued interest receivable or payable recorded as a component of either accounts receivable and other accrued assets or accounts payable and accrued liabilities. Premiums on the option contracts are amortized on a straight-line basis over the lives of the underlying instruments and reported as an adjustment to interest income or expense. Realized gains or losses from interest rate options are deferred and recognized in income over the lives of the hedged positions as an adjustment to income or expense of the hedged item.

j) Pension and Other Post-retirement Employee Benefits

Employees participate in the Public Service Superannuation plan administered by the Government of Canada. The Corporation matches employees' contributions for current or prior service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

Upon retirement, employees under the age of 65 are entitled to basic life insurance coverage. The Corporation recognizes the premium costs as incurred.

k) Employee Termination Benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees or settlements are reasonably determinable.

l) Income Taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred income tax benefits which have not been recorded and will only be recognized when realized.

3. Cash and Short-term Investments

	Effective interest rate (%)	1998	1997
		(thousands of dollars)	
Cash		$ **19,733**	$ 15,563
Short-term investments	4.08 – 5.05	**216,572**	223,831
Accrued interest		**1,300**	1,620
		$ **237,605**	$ 241,014
Short-term investments consist of instruments with maturities of less than one year, issued by:			
The Government of Canada and its agencies and Crowns		$ **80,051**	$ 145,139
Other		**136,521**	78,692
		$ **216,572**	$ 223,831

Other investments consist of short-term instruments issued by the governments of the provinces of Canada, or short-term instruments issued by institutions with credit ratings of R-1M or higher. As at March 31, 1998, the largest total investment in any one institution was $28.7 million (1997 – $25.0 million) and the Corporation held investments in eight separate institutions (1997 – four institutions).

4. Long-term Investments

	Stated interest rate (%)	1998	1997
		(thousands of dollars)	
Amounts due within:			
1 year	6.25 – 6.50	$ **50,000**	$ 41,500
1 – 5 years	5.50	**80,000**	15,000
over 5 years	9.00	**15,000**	18,500
		145,000	75,000
Unamortized premium and discount		**3,357**	3,150
Accrued interest		**1,256**	1,077
		$ **149,613**	$ 79,227

Long-term investments consist entirely of Government of Canada bonds.

5. Loans Receivable

	Stated interest rate (%)	1998	1997
		(thousands of dollars)	
Principal amounts due secured by:			
– mortgages	5.00 – 15.00	**$ 4,553,756**	$ 4,026,951
– chattels	5.00 – 12.40	**579,044**	408,451
– notes	5.00 – 14.00	**82,341**	156,250
		5,215,141	4,591,652
Accrued interest and fees, net of payments held		**71,364**	70,090
		5,286,505	4,661,742
Recorded investment in impaired loans secured by:			
– mortgages		**25,187**	18,851
– chattels		**5,249**	3,840
– notes		**1,897**	2,571
		32,333	25,262
Less: Allowance for credit losses (Note 6)		**(182,700)**	(165,400)
		$ 5,136,138	$ 4,521,604

	1998	1997
Principal amounts (excluding impaired loans) due within:		
1 year	**$ 1,490,243**	$ 1,515,520
1 – 5 years	**3,619,991**	2,721,070
over 5 years	**104,907**	355,062
	$ 5,215,141	$ 4,591,652

Management estimates that annually, over the next three years, between four and five per cent (1997 – three and six per cent) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 1998, $2.4 million (1997 – $2.3 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

6. Allowance for Credit Losses

		1998		1997
		(thousands of dollars)		
Balance, beginning of the year	$	**165,400**	$	143,700
Write-offs, net of recoveries		**(1,448)**		(2,286)
Provision for credit losses		**18,748**		23,986
Balance, end of the year	$	**182,700**	$	165,400
Specific allowance	$	**8,200**	$	7,800
General allowance		**174,500**		157,600
Balance, end of the year	$	**182,700**	$	165,400

As at March 31, 1998, the total recorded investment in loans receivable against which a specific allowance has been identified was $32.3 million (1997 – $25.3 million). The general allowance was established against the remaining $5,287 million (1997 – $4,662 million) investment in loans receivable.

7. Real Estate Acquired in Settlement of Loans

		1998		1997
		(thousands of dollars)		
Balance, beginning of the year	$	**139,629**	$	153,468
Acquisitions		**2,767**		3,913
Disposals		**(18,915)**		(17,752)
Balance, end of the year	$	**123,481**	$	139,629
Real estate under long-term lease maturing:				
within 1 year	$	**482**	$	195
from 1 – 2 years		**74,292**		297
from 2 – 3 years		**42,852**		85,110
from 3 – 4 years		**2,234**		48,327
from 4 – 5 years		**699**		1,521
over 5 years		**–**		254
		120,559		135,704
Real estate held for sale		**2,922**		3,925
	$	**123,481**	$	139,629

Real estate represents farm property acquired in the process of administering loans receivable.

Real estate under long-term lease may be subject to renewal at the expiry of the original lease term. Leases reprice annually.

		(thousands of dollars)
Future expected lease receipts, using current lease rates, due within:		
1 year	$	**11,972**
1 – 5 years		**10,883**
	$	**22,855**

8. NISA Investments Held

	Stated interest rate (%)	1998	1997
		(thousands of dollars)	
Net Income Stabilization Account investments:			
Variable rate	4.09	$ **87,169**	$ 15,009
Term rate	3.25 – 6.00	**4,568**	2,369
		91,737	17,378
Accrued interest		**2,017**	174
		$ **93,754**	$ 17,552

Subject to the terms and conditions of the "Federal/Provincial Agreement Establishing the Net Income Stabilization Account (NISA) Program", the Corporation may be required to refund at any time amounts eligible for withdrawal under the terms of the NISA program.

In the fourth quarter of fiscal 1998, the Corporation announced its intention to withdraw as a participating financial institution under the NISA program. The Minister of Agriculture and Agri-Food granted approval for this withdrawal on March 31, 1998. As of April 1, 1998, the Corporation is no longer accepting deposits and it is anticipated that the transfer of the NISA investments to other financial institutions will be completed by March 31, 1999.

Certain costs are expected to be incurred as a direct result of the plan to withdraw. The Corporation has included $0.9 million as an estimate of these costs in current year administration expenses.

9. Short-term Notes

	Effective interest rate (%)	1998	1997
		(thousands of dollars)	
Short-term notes payable within one year	4.00 – 4.76	$ **938,387**	$ 742,384
Accrued interest		**7,271**	5,283
		$ **945,658**	$ 747,667

10. Other Liabilities and Deferred Fees

	1998	1997
	(thousands of dollars)	
Other liabilities and deferred fees consist of:		
Agri-Land investment fund	$ **2,707**	$ 3,731
Downpayments on real estate sales	**492**	626
Provision for employee termination benefits	**4,933**	5,500
Obligation under capital lease (Note 14)	**744**	–
Net currency swap payable	**17,456**	624
Deferred loan fees	**8,748**	7,792
	$ **35,080**	$ 18,273

The Corporation may, through its equity-building lease program, lease real estate acquired in settlement of loans back to the former owner (the lessee). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Agri-Land investment fund. Funds held in the Agri-Land investment fund earn interest at 3.00% (1997 – 3.25%). At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

11. Loans Payable

	Stated interest rate (%)	1998	1997
		(thousands of dollars)	
Loans from Canada, secured by notes	6.29 – 10.21	**$ 1,477,048**	$ 1,981,011
Loans from capital markets, secured by notes payable in:			
Canadian dollars	3.00 – 9.00	**2,162,109**	1,458,639
U.S. dollars ($100,000,000)	5.21	**141,920**	103,773
New Zealand dollars ($100,000,000)	8.00	**77,689**	95,781
Loans from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:			
the Hong Kong Exchange index	–	**12,000**	12,000
the Euro Top 100 index	–	**56,000**	37,000
the S&P 500 Composite Stock Price index	–	**38,000**	–
		3,964,766	3,688,204
Accrued interest		**97,910**	65,673
		$ 4,062,676	$ 3,753,877

Loans with equity-linked interest payments do not provide periodic interest payments but, upon settlement, provide the purchaser with a single payment based on changes in the underlying equity index. The Corporation has entered into swap agreements which offset all equity-based interest payments in exchange for periodic payments calculated at an agreed interest rate.

Loan payments denominated in foreign currencies have been fully swapped into Canadian dollars.

	1998	1997
	(thousands of dollars)	
Amounts due:		
within 1 year	**$ 1,123,484**	$ 765,627
from 1 – 2 years	**708,567**	760,630
from 2 – 3 years	**785,737**	627,694
from 3 – 4 years	**367,813**	527,743
from 4 – 5 years	**578,279**	384,813
over 5 years	**400,886**	621,697
	3,964,766	3,688,204
Accrued interest	**97,910**	65,673
	$ 4,062,676	$ 3,753,877

Included in loans payable are $494.0 million (1997 – $194.0 million) of loans extendable beyond the above due dates at the Corporation's option.

The Corporation's borrowings (short-term notes and loans payable) are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the Corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

12. Capital

Effective March 31, 1998, approval was obtained from the Governor in Council to eliminate the accumulated deficit of $660.6 million through a reallocation of contributed capital. The details of the resulting capital figure are as follows:

		1998		1997
		(thousands of dollars)		
Balance, beginning of the year	$	**1,118,333**	$	1,118,333
Additional capital contributions		**50,000**		–
Reallocation of contributed capital to eliminate deficit		**(660,608)**		–
Balance, end of the year	$	**507,725**	$	1,118,333

The change in retained earnings, as a result of this reallocation, is presented in the Statement of Operations and Retained Earnings/(Deficit).

13. Income Taxes

a) Timing differences of approximately $35.0 million are available to the Corporation as at March 31, 1998 (1997 – $166.0 million). These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the provision for credit losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $492.0 million (1997 – $392.0 million) and expires on the dates indicated:

		(thousands of dollars)
March 31, 1999	$	**179,000**
2001		**143,000**
2003		**70,000**
2005		**100,000**
	$	**492,000**

b) Income taxes payable by the Corporation represent capital taxes under Part VI and I.3 of the *Income Tax Act*. Part VI tax – a tax on the capital of financial institutions – is applicable to financial institutions with capital in excess of $200 million and can be reduced by Part I tax or surtaxes payable. Part I.3 tax is applicable to corporations with taxable capital in excess of $10 million and may be reduced by current or future Part I surtaxes payable.

14. Commitments and Contingent Liabilities

a) Long-term Commitments for Leases

Future minimum payments by fiscal year on operating leases for premises and automobiles and on the capital lease for computer hardware, with initial non-cancellable lease terms in excess of one year, are due as follows:

	Capital leases	Operating leases
	(thousands of dollars)	
within 1 year	$ 245	$ 6,199
from 1 – 2 years	245	5,722
from 2 – 3 years	245	5,000
from 3 – 4 years	120	3,657
from 4 – 5 years	–	1,739
over 5 years	–	2,453
Total future minimum lease payments	$ 855	$ 24,770
Less: amount representing executory costs and imputed interest at 5.00%	111	
Balance of obligation under capital lease	744	
Less: current portion	200	
Long-term obligation under capital lease	$ 544	

b) Other Commitments and Contingent Liabilities

In the normal course of its business, the Corporation enters into various commitments and contracts. As of March 31, 1998, the Corporation has issued guarantees and letters of credit on behalf of its clients which in total do not exceed $0.7 million (1997 – $0.7 million). In the event of a call upon the guarantees disclosed above, the Corporation has recourse against its clients.

As at March 31, 1998, loans to farmers and agribusiness approved but undisbursed amounted to $123.0 million (1997 – $172.5 million). These loans were approved at an average interest rate of 7.48% (1997 – 7.41%) and do not form part of the loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by May 31, 1998.

15. Derivative Financial Instruments

The Corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, for investment management purposes, and to reduce funding costs. Interest rate and currency swaps are used to manage interest rate risk and to offset foreign currency risk on foreign dollar borrowings. Interest rate options are purchased to hedge options embedded in the Corporation's loan products as well as to reduce risk arising from loan rate guarantees. Interest rate options are sometimes sold as part of funding transactions and are intended to reduce the Corporation's borrowing costs.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligation to the Corporation. Replacement cost represents the mark to market value of outstanding derivative contracts. A positive replacement cost indicates the Corporation's exposure to derivative credit risk. The Corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is "high" (Aa3 from Moody's or AA- from S&P or better). Additionally, International Swaps and Derivative Association (ISDA) documents have downgrade and collateral provisions to reduce counterparty credit risk. As a result, the Corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 1998, was $596.0 million (1997 – $435.3 million) and the largest cumulative replacement cost of contracts with any institution as at March 31, 1998, was $3.2 million (1997 – $1.6 million).

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of derivative financial instruments outstanding as at March 31, 1998, were as follows:

(thousands of dollars)

1998 – Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
Currency swaps:						
Receive	*Pay*					
CDN fixed	USD fixed	$ –	$ 5,000	$ –	$ 5,000	$ (110)
CDN fixed	USD float	–	2,250	–	2,250	(21)
USD fixed	CDN fixed	137,750	–	–	137,750	2,963
NZD fixed	CDN fixed	–	95,000	–	95,000	(15,521)
Interest swaps:						
Receive	*Pay*					
Floating	Fixed	100,000	55,000	–	155,000	(808)
Fixed	Floating	240,000	402,000	857	642,857	6,699
Fixed	Fixed	10,000	70,000	–	80,000	1,040
Equity-indexed	Floating	–	12,000	56,000	68,000	(3,918)
Equity-indexed	Fixed	–	38,000	–	38,000	(2,538)
Purchased options:						
Interest rate options		245,000	10,000	–	255,000	351
Sold options:						
Interest rate options		169,000	–	–	169,000	(9,653)
Total		$ 901,750	$ 689,250	$ 56,857	$ 1,647,857	$ (21,516)

15. Derivative Financial Instruments (continued)

(thousands of dollars)

1997 – Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
Currency swaps:						
Receive	*Pay*					
CDN fixed	USD fixed	$ –	$ 5,000	$ –	$ 5,000	$ (69)
CDN fixed	USD float	–	–	2,250	2,250	(69)
USD fixed	CDN fixed	–	103,050	–	103,050	(3,603)
NZD fixed	CDN fixed	–	95,000	–	95,000	2,139
Interest swaps:						
Receive	*Pay*					
Floating	Fixed	–	70,000	–	70,000	(2,019)
Fixed	Floating	55,000	465,000	10,000	530,000	2,367
Equity-indexed	Floating	–	12,000	37,000	49,000	(2,415)
Purchased options:						
Interest rate options		470,000	10,000	–	480,000	1,588
Sold options:						
Interest rate options		–	69,000	–	69,000	(1,814)
Total		$ 525,000	$ 829,050	$ 49,250	$ 1,403,300	$ (3,895)

Included in derivative financial instruments are $494.0 million (1997 – $264.0 million) of interest rate swap and option contracts extendable beyond the above due dates.

16. Interest Rate Risk

Changes in market interest rates have a direct impact on the contractually determined cash flows of floating rate financial instruments and on the fair value of fixed rate financial instruments.

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the Corporation's financial instruments by the earlier of their contractual repricing dates or their maturity dates. Instruments repayable by amortizing payments of principal and interest are shown as maturing over the term of the contract.

Floating rate loans receivable are linked to the bank prime rate and re-price with changes in the rate.

The calculated yield for loans payable in foreign currencies is disclosed net of currency and interest rate swaps.

(thousands of dollars)

1998 – Remaining term to repricing or maturity date		Within 1 year	1 to 5 years	Over 5 years	No fixed term	Total carrying value
Short-term investments	$	217,872	–	–	–	217,872
Average yield		4.65%	–	–	–	4.65%
Long-term investments	$	50,486	81,426	17,701	–	149,613
Average yield		5.02%	4.97%	6.06%	–	5.10%
Loans receivable (1)						
– Fixed rate	$	1,420,864	3,270,383	99,236	–	4,790,483
Average yield		7.64%	8.19%	8.55%	–	8.04%
– Floating rate	$	89,770	399,145	7,107	–	496,022
Average yield		7.45%	7.56%	7.66%	–	7.54%
NISA investments (2)						
– Fixed rate	$	780	3,884	–	–	4,664
Average yield		3.43%	4.59%	–	–	4.39%
– Floating rate	$	–	–	–	89,090	89,090
Average yield		–	–	–	4.09%	4.09%
Short-term notes	$	945,658	–	–	–	945,658
Average yield		4.43%	–	–	–	4.43%
Loans payable	$	1,151,699	2,621,835	289,142	–	4,062,676
Average yield		5.90%	6.72%	7.58%	–	6.55%

16. Interest Rate Risk (continued)

(thousands of dollars)

1997 – Remaining term to repricing or maturity date		Within 1 year	1 to 5 years	Over 5 years	No fixed term	Total carrying value
Short-term investments	$	225,451	–	–	–	225,451
Average yield		3.74%	–	–	–	3.74%
Long-term investments	$	42,740	14,999	21,488	–	79,227
Average yield		6.76%	6.95%	6.58%	–	6.76%
Loans receivable (1)						
– Fixed rate	$	1,518,579	2,762,038	360,445	–	4,641,062
Average yield		7.97%	8.56%	9.49%	–	8.44%
– Floating rate	$	20,075	567	38	–	20,680
Average yield		5.30%	5.65%	5.73%	–	5.31%
NISA investments (2)						
– Fixed rate	$	398	2,005	–	–	2,403
Average yield		3.29%	4.73%	–	–	4.49%
– Floating rate	$	–	–	–	15,149	15,149
Average yield		–	–	–	4.00%	4.00%
Short-term notes	$	747,667	–	–	–	747,667
Average yield		3.13%	–	–	–	3.13%
Loans payable	$	779,961	2,587,151	386,765	–	3,753,877
Average yield		6.96%	6.73%	7.31%	–	6.84%

Note:

(1) Loans receivable excludes impaired loans.

(2) Although certain of these contributions have fixed-interest terms, the Corporation may be required to refund at any time amounts eligible for withdrawal under the terms of NISA program.

17. Fair Values

The following table summarizes the estimated fair value of the Corporation's financial instruments.

	1998		1997	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
	(thousands of dollars)			
Assets				
Cash and short-term investments	**$ 237,605**	**$ 237,605**	$ 241,014	$ 241,014
Accounts receivable and other accrued assets	**44,158**	**44,158**	28,928	28,928
Long-term investments	**149,613**	**150,420**	79,227	80,279
Loans receivable	**5,136,138**	**5,163,582**	4,521,604	4,600,266
Liabilities				
NISA investments held	**$ 93,754**	**$ 93,754**	$ 17,552	$ 17,552
Accounts payable and accrued liabilities	**19,748**	**19,748**	27,373	27,373
Short-term notes	**945,658**	**944,851**	747,667	746,669
Loans payable	**4,062,676**	**4,210,188**	3,753,877	3,920,478

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and short-term investments, accounts receivable and other accrued assets, and accounts payable and accrued liabilities.

Fair value for long-term investments is determined by reference to quoted market prices.

The estimated fair value of NISA investments held is equal to the amount payable upon withdrawal.

Quoted market values are not available for a significant number of the Corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

Estimated fair value for short-term notes and loans payable is calculated by discounting contractual cash flows at interest rates prevailing at year end for equivalent terms to maturity.

The estimated fair value for loans receivable is determined by discounting expected future cash flows (after adjustment for amounts which may be collected in advance of the contractual due date) at market interest rates for loans with similar credit risks. The allowance for credit losses is valued at its balance sheet carrying value.

Note: The fair value (replacement cost) of derivative financial instruments is disclosed in Note 15.

18. Government Programs

Commodity-Based Loans

Loans receivable as at March 31, 1998, includes $18.3 million (1997 – $100.0 million) of loans under the Commodity-Based Loans (CBL) program. In 1998, the Corporation received $6.4 million (1997 – $21.5 million) from Agriculture and Agri-Food Canada as compensation for the early retirement of CBL loans and concessions made under the program. Concessions relate to preferential interest rates provided to borrowers under the program and cease when the related loans are retired. The program has not been available for new lending since 1989.

Farm Debt Review Act

During the year, the Minister of Agriculture and Agri-Food was authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the *Farm Debt Review Act*. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments.

Since the inception of the Farm Debt Review process, the Corporation has provided $278.9 million in concessions and billed $278.9 million to the Government of Canada, of which $0.7 million was billed in the current year.

Government funding for new concessions under the *Farm Debt Review Act* ceased effective March 31, 1994.

19. Comparative figures

Certain 1997 comparative figures have been reclassified to conform with the presentation adopted in 1998.

Corporate Governance

A Report from the Board of Directors



Board Responsibilities

The Board is responsible for the stewardship of the Corporation. In carrying out this responsibility, the Board participates in the Corporation's strategic planning process each year and approves the strategic direction and corporate plan. The Board also exercises its responsibility to oversee and ensure that principal risks of the Corporation's business have been identified and appropriate systems and policies implemented to manage such risks. The Board met six times during fiscal 1997/98.

Board Composition

FCC's Board of Directors is representative of the Canadian farming and agribusiness community. Members possess a variety of significant attributes, including strategic leadership, entrepreneurial and communication skills, integrity, flexibility, sound judgement and initiative. Board members are committed to serving the Corporation, and in so doing, serve Canadian agriculture through emphasis on client service, productivity and profitability, cooperation and sound environmental stewardship.

The Minister of Agriculture and Agri-Food, pursuant to the *Farm Credit Corporation Act*, appoints Board members who represent Canadian agricultural and financial communities, striving for gender, linguistic, employment equity target group and geographical representation.

Candidate profiles include successful business people from rural areas or small urban centres, as well as people who are successful in the agri-food and financial service industries, and academics with a sound track record in policy making. Board members have technical knowledge in areas such as agriculture, lending practices, marketing, accounting, law, corporate management and financial administration.

Board Orientation and Training

Upon their appointment, Board members receive a briefing package of pertinent materials and orientation to the Corporation. As part of their ongoing education and training, the Board received information and presentations from outside industry experts on matters such as Board governance, derivatives and risk management policies. In addition, Board members participated in governance workshops sponsored by the Conference Board of Canada.

Board Independence

The Chair and Directors are unrelated to and independent from management with the exception of the position of Chief Executive Officer who by statute is required to be a member of the Board.

FCC's Board of Directors is sensitive to the requirement that they have and exhibit an ability to exercise fair and impartial judgement in the best interests of the Corporation. Acting in accordance with the *Financial Administration Act*, Directors act honestly and in good faith, exercising care and diligence. The government's *Conflict of Interest and Post Employment Code for Public Office Holders* applies to members of the Board.

Board Governance and Oversight Responsibilities

FCC's Board of Directors has been active in implementing corporate governance practices that are consistent with *The Guidelines for Corporate Governance for Crown Corporations and Other Public Enterprises* recommended by the Department of Finance and Treasury Board of Canada.

In terms of the functioning of the Board, during this fiscal year the Board established a Corporate Governance Committee to provide enhanced focus and leadership of governance principles and objectives within the Corporation. The Corporate Governance Committee is responsible for overseeing issues such as the development of, and enhancements to, the Corporation's approach to corporate governance, along with responsibility for matters such as assessing Board effectiveness and evaluating performance.

Board and Chief Executive Officer

The Chief Executive Officer is appointed by the shareholder, the Government of Canada, in consultation with the Board of Directors and in accordance with the *Farm Credit Corporation Act*. The Human Resources Committee has the responsibility to evaluate the CEO's performance against established duties and objectives.

As part of the relationship between the Board and Management, the assessment and evaluation of the CEO is integral to effective governance. The Board works with the CEO to develop a position description to outline the limits of management's authority, and develop and approve corporate objectives for which the CEO is accountable.

In working with management the Board is responsible, among other things, for approval of management's succession plan framework and for evaluation of the performance of the Chief Executive Officer. With the completion of the term of the previous CEO, C. Gerald Penney, this fiscal year the Board conducted a search process to fill the position of Chief Executive Officer. Working in conjunction with the Prime Minister's Office and the Minister of Agriculture and Agri-Food, desired skills and management attributes for the CEO position were established and applied in the selection process. The search process successfully concluded with the appointment of John J. Ryan as President and Chief Executive Officer effective September 1, 1997.

Committees

The Board established the following four committees to assist in discharging specific areas of Board responsibility:

- **Audit Committee**
- **CEO Search Committee**
- **Corporate Governance Committee**
- **Human Resources Committee**

The Chief Executive Officer sits on the Human Resources and Corporate Governance Committees. All Committees report to the Board, making recommendations within the area of responsibility.

Audit Committee

– 4 meetings 1997/98

Chair: Warren Ellis – 100% attendance
Members: Donald W. Black – 75% attendance
Rosemary Davis – 100% attendance
Rashpal Dhillon – 75% attendance
Marie-Andrée Mallette – 100% attendance
Peter Rampton – 100% attendance

The Audit Committee has a broad mandate to provide the checks and balances on the Corporation and its activities. This committee's primary function is to help the Board fulfill its responsibilities to oversee the Corporation's financial performance and monitoring activities, by reviewing financial and operational information, internal control systems and audit processes. In carrying out its role, the Audit Committee has the authority to investigate any corporate activity, in all areas, as it deems necessary and appropriate. Members of the Audit Committee are independent from the management of the Corporation.

CEO Search Committee

– 5 meetings 1997/98 (2 meetings 1996/97)

Chair: Donald W. Black – 100% attendance
Members: Edward Clark – 100% attendance
Eleanor Hart – 100% attendance
Marie-Andrée Mallette – 100% attendance
Peter Rampton – 100% attendance

The Board of Directors formed the CEO Search Committee in January, 1997 to manage the selection process in conjunction with the Minister of Agriculture and Agri-Food and the Prime Minister's Office. John J. Ryan was appointed as President and Chief Executive Officer as at September 1, 1997, at which time the committee was dissolved.

Corporate Governance Committee

– 4 meetings 1997/98

Chair: Edward Clark – 100% attendance
Members: Donald W. Black – 100% attendance
Marie-Andrée Mallette – 100% attendance
John J. Ryan – 100% attendance
Marilyn Marie Scott – 75% attendance

The Corporate Governance Committee's responsibilities include assessing and making recommendations to the Board regarding governance processes, Board committee structure and responsibilities, the Board's relationship with the CEO, Board members' qualifications and attributes, orientation and education of Board members and evaluation of Board performance. The Governance Committee is also responsible to oversee the Corporation's standards of conduct and ethics as well as Board member responsibilities and conflict of interest issues. The Chief Executive Officer sits on the Corporate Governance Committee.

Human Resources Committee

– 3 meetings 1997/98

Chair: Eleanor Hart – 100% attendance
Members: Donald W. Black – 100% attendance
Lois Hole – 67% attendance
John J. Ryan – 100% attendance
Germain Simard – 100% attendance

The Human Resources Committee is responsible to review all major human resources policy matters of the Corporation and to make recommendations thereon. The Committee also reviews the annual strategic human resources plan, provides guidance on desired skills and qualifications, performance evaluation and succession planning with respect to the office of the CEO. The Committee is also responsible to review the management succession plan framework and to review the employment equity and official language policies of the Corporation. The Chief Executive Officer sits on the Human Resources Committee.

Board Remuneration

Annual retainer and per diem amounts are set by the Governor in Council pursuant to the *Financial Administration Act*, on the recommendation of the Minister of Agriculture and Agri-Food. FCC's Chair receives an annual retainer of $6,500 and per diem of $375; Committee chairs receive an annual retainer of $4,250 and a per diem of $300.

All other Board members receive an annual retainer of $3,500 and a per diem of $300 respectively. Per diems are earned for actual time spent performing corporate business in accordance with corporate policies. This includes meeting attendance, travel and Board-related work. Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while engaged in corporate business. Individual director's expenses vary according to distance and amount of travel and are also relative to the volume of committee work performed.

Members of the Board

DONALD W. BLACK

President and Chief Executive Officer, Greystone Capital Management Inc., Regina, Saskatchewan

Chair of the Board
Appointed January 11,1995

Member, Audit, Corporate Governance, Human Resources and CEO Search Committees; Acting Chief Executive Officer from December 19, 1996 to September 1, 1997.

Board Meeting Attendance: 100%
Annual Retainer: $6,500
Board Per Diems: $5,250
Committee Remuneration: $4,125

Expenses: $15,522

EDWARD CLARK

Owner/Operator, Beef and Forage, Miscouche, Prince Edward Island

Appointed May 28, 1996

Chair, Corporate Governance Committee and member, CEO Search Committee

Board Meeting Attendance: 100%
Annual Retainer: $4,250
Board Per Diems: $4,800
Committee Remuneration: $4,200

Expenses: $32,760

ROSEMARY DAVIS

Owner/Manager, Tri-Country Agrimart Ltd., Trenton, Ontario

Appointed December 19, 1995

Member, Audit Committee

Board Meeting Attendance: 83%
Annual Retainer: $3,500
Board Per Diems: $3,000
Committee Remuneration: $900

Expenses: $14,842

RASHPAL DHILLON

President and Chief Executive Officer, Richberry Farms Ltd.; General Partner and Chief Executive Officer, Pitt Meadows Farms Ltd., Richmond, British Columbia

Appointed June 6, 1995

Member, Audit Committee

Board Meeting Attendance: 83%
Annual Retainer: $3,500
Board Per Diems: $3,000
Committee Remuneration: $900

Expenses: $7,517

WARREN ELLIS

Proprietor, Warren Ellis Produce, O'Leary, Prince Edward Island

Appointed April 4, 1995

Chair, Audit Committee

Board Meeting Attendance: 100%
Annual Retainer: $4,250
Board Per Diems: $3,600
Committee Remuneration: $1,200

Expenses: $18,963

ELEANOR M. HART

Farm Partner/Owner, Lokoja Farms; Past-President, Ontario Home Economics Association, Woodstock, Ontario

Appointed May 2, 1995

Chair, Human Resources Committee and member, CEO Search Committee

Board Meeting Attendance: 100%
Annual Retainer $4,250
Board Per Diems $4,200
Committee Remuneration: $3,000

Expenses: $19,526

LOIS HOLE

Owner, Holes Greenhouse and Gardens Ltd.,
St. Albert, Alberta

Appointed April 4, 1995

Member, Human Resources Committee

Board Meeting Attendance: 67%
Annual Retainer: $3,500
Board Per Diems: $2,400
Committee Remuneration: $300

Expenses: $4,038

MARIE-ANDRÉE MALLETTE

Farmer, large-scale farming of commercial crops and beans; Lawyer specializing in agricultural law, Saint-Paul-de-Châteauguay, Québec

Appointed June 16, 1995

Member, Audit, Corporate Governance and CEO Search Committees

Board Meeting Attendance: 100%
Annual Retainer: $3,500
Board Per Diems: $5,400
Committee Remuneration: $3,600

Expenses: $22,606

PETER RAMPTON

Accountant, Duncan, British Columbia; Farm Partner, Dauphin, Manitoba

Appointed May 2, 1995

Member, Audit Committee and CEO Search Committee

Board Meeting Attendance: 100%
Annual Retainer: $3,500
Board Per Diems: $4,800
Committee Remuneration: $3,300

Expenses: $5,258

JOHN J. RYAN

President and Chief Executive Officer, Farm Credit Corporation Regina, Saskatchewan

Appointed September 1, 1997

Member, Corporate Governance and Human Resources Committees

Board and Committee Attendance: 100%

No per diems or remuneration are paid to Mr. Ryan as a member of the Board.

MARILYN MARIE SCOTT

Lawyer and Partner in Law Firm, Humboldt, Saskatchewan

Appointed October 24, 1996

Member, Corporate Governance Committee

Board Meeting Attendance: 100%
Annual Retainer: $3,500
Board Per Diems: $1,800
Committee Remuneration: $1,200

Expenses $2,100

GERMAIN SIMARD

Dairy Farmer, La Baie, Québec

Appointed June 6, 1995

Member, Human Resources Committee

Board Meeting Attendance: 100%
Annual Retainer: $3,500
Board Per Diems: $3,600
Committee Remuneration: $900

Expenses: $15,288

Poultry Farming Second Nature to

Young Farmers



Joanna, Zenon and their children Sylvia, seven, and Robert, nine months, meet with FCC Credit Advisor Doug Janzen.

Poultry farming is second nature to Joanna and Zenon Roznicki. At age 19 and 21 respectively, the two bought their first poultry farm near Leduc, Alberta with help from FCC. Beginning with 80 per cent of their quota (6,300 birds), they have doubled their farm with a quota of 12,500 birds only nine years later.

"It was something we both grew up with – we've been around poultry farming all our lives," Joanna says. "My father was encouraging us to buy a farm. When this one became available near Leduc, we thought it was in an excellent location."

Both Zenon and Joanna grew up on neighboring poultry farms in their homeland of Poland. In 1983, a 14-year-old Joanna moved to Canada with her family. Three years later, with help from Joanna's family, Zenon came to Canada where he began work on a poultry farm.

The couple bought their first farm in April 1989 by assuming an existing FCC loan and obtaining the balance of the financing from the Agriculture Financial Services Corporation. They have since transferred their business to FCC completely.

"My husband is very determined – there isn't a thing in the world that man can't do," Joanna says.

Glossary of Terms

Asset/Liability Management Committee (ALCO) A senior management committee responsible to ensure the management of an entity's assets with the management of its liabilities.

Allowance for Credit Losses Management's estimate of probable credit losses in the loans receivable portfolio. The allowance is increased by specific and general provisions for loan impairment and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

Basis Point One one-hundredth of a percentage point (i.e.: 1/100 of 1%).

Cross-Currency and Interest Rate Swaps Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Derivative Product A financial instrument whose value is based on and derived from an underlying price, interest rate, exchange rate or price index. Types of derivative contracts include: interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts, and futures.

Duration Analysis Duration measures the price sensitivity of a financial asset or liability to changes in interest rates. It is used as a tool to analyze assets and liabilities to quantify and control exposure to interest rate risk.

Gap Analysis A tool to measure the maturing balances of assets and liabilities for interest rate risk management purposes.

Hedge A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired Loans Loans are automatically classified as impaired when: i) a payment is 90 days past due, unless the loan is well secured and in the process of collection; or ii) when, in the opinion of management, there is no longer reasonable assurance of the timely collection of principal and interest.

Interest Expense Expense incurred from the use of interest-bearing funding instruments.

Interest Income Income earned on loans receivable, cash and investments.

Interest Rate Options A right but not an obligation to pay or receive a specific interest rate on a notional amount of principal for a set interval.

International Swap and Derivative Association, Inc. (ISDA) The principal swap industry trade group whose agreements are the industry standard documentation for derivative instruments.

Market Value of Portfolio Equity (MVPE) The net present value of assets less liabilities. It is used to measure the sensitivity of the Corporation's net economic worth (ie: equity capital position) to changes in interest rates.

Net Income Stabilization Account (NISA) A federal program designed to help producers achieve long-term income stability. Producers may deposit funds into a NISA account and receive a matching contribution shared by the federal and provincial governments up to a specified percentage. Each account has two components: Fund 1 contains the participant's matchable and non-matchable deposits; Fund 2 contains the federal and provincial contributions and interest earned on both funds.

Net Interest Income (NII) The difference between interest earned on assets, such as loans and securities, and interest expense on liabilities, such as notes and loans payable.

Net Interest Margin Net interest income expressed as a percentage of interest-bearing assets.

Notional Principal Amount A reference amount upon which payments for derivative financial instruments are based.

Other Enterprises Includes sheep, maple syrup, mixed enterprises and enterprises with significant off-farm income.

Provision for Credit Losses A charge to income which is added to the allowance for credit losses.

Return on Assets (ROA) Net income expressed as a percentage of average total assets. Used with ROE as a measure of profitability and as a basis for intra-industry performance comparison.

Return on Equity (ROE) Net income expressed as a percentage of average equity.

Special Traditional Enterprises Includes beekeeping, fur animals, rabbits, Pregnant Mare Urine, horses, vermiculture, and pisciculture.

Value-Added Enterprises Includes seed cleaning and sales, feed processing and custom work, abattoirs, aquaculture, woodlots, machinery repair, fertilizer and chemical distribution and application, fuel, packaging and storage, value-added processing, farm vacations, manufacturing and fabrication, transportation and utilities such as hydro and municipal water works.

RISK

Counterparty Credit Risk The risk of a loss being incurred if a counterparty defaults on a financial instrument or transaction.

Foreign Exchange Risk (FX) The risk of financial loss due to adverse movements in foreign currencies.

Interest Rate Risk (IRR) Exposure to a decline in net interest income and capital position as a result of a relative or absolute change in interest rates. Varieties of interest rate risk include prepayment risk, commitment risk, and reinvestment risk.

Liquidity Risk The risk that funds will not be readily available to meet corporate obligations in a timely manner.

FCC Products and Services

Loan Products:

Variable-Rate Loan

The Variable-Rate Loan is designed for maximum flexibility. It offers a floating rate that can be converted, at any time, without cost.

One-Year Convertible Loan

This product offers the flexibility of a one -year fixed rate that is convertible to a longer-term at any time without cost.

One-Year Fixed Loan

This product offers a fixed one-year rate that can be changed, without cost, to a longer term at the time of annual renewal.

Long-Term Loans

FCC provides fixed interest rate terms of up to 20 years and amortization periods between three and 29 years to provide long-term stable credit terms for Canadian farmers.

Personal Property Loan

This is a practical loan for a practical purpose – purchasing new and used equipment, quota or breeding stock. There are from two to ten-year amortization periods with quarterly and semi-annual payment options.

Farmbuilder Construction Loan

This innovative loan requires no payment until the building project is completed. Funds are disbursed within one year.

Family Farm Loan

FCC's Family Farm Loan makes it easier to transfer farm assets from one generation to the next, without creating an unmanageable debt position for the purchaser and without jeopardizing the retirement income of the older generation.

Shared-Risk Mortgage

This mortgage cushions the impact of rising interest rates and provides stability by minimizing exposure to fluctuating interest rates. This product also allows FCC and the borrower to split equally any interest rate fluctuations.

Plant Now - Pay Later

This deferred payment product is targeted to fruit growers who face financial challenges when upgrading, renovating or expanding their operations.

Aquaculture

FCC loans are available to salmon, fresh water fish or shell fish operations for business expansion, purchasing barges, cages, nets, smolt, feed, tanks, hatcheries, processing equipment, construction costs, land and site leasing.

Forestry

FCC offers financing for purchase of land or forestry equipment, expansion of existing forestry operations.

Investments:

FCC Medium and Long-Term Notes

FCC's Medium and Long-Term Notes are issued daily at competitive market interest rates, for maturities ranging from one to 29 years. The notes are sold by investment dealers who act as agents for FCC and give investors the opportunity to invest in Canadian agriculture.

Other Services:

Land Sales & Leasing

FCC's property division, Agri-Land Sales & Leasing, manages and markets most of FCC's land holdings and provides farmland management services for the owners and tenants.

Feeder Finance Program

FCC finances feeder livestock through alliances.

Agricultural Value-Added Program

In co-operation with Western Economic Diversification and CIBC, FCC assists Western Canadian agricultural value-added firms in accessing debt capital.

Agriculture & Agri-Food Canada Programs delivered by FCC:

Business Planning for Agri-Ventures (BPAV)

BPAV gives Canadian farmers access to planning expertise to increase the success rate of agriculture and value-added business initiatives in rural Canada.

National Biomass Ethanol Program

This program encourages firms to invest in the Canadian ethanol industry and makes it easier for producers to obtain private-sector funding.

Farm Credit Corporation

Wherever you are.

FCC has more than 100 offices in communities across Canada. To contact the office in your area, please call the toll-free number 1-800-387-3232 from anywhere in Canada – or catch us on our Internet site at http:/www.fcc-sca.ca.

British Columbia

Abbotsford, Dawson Creek, Kelowna, Prince George

Alberta

Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, Lethbridge, Medicine Hat, Olds, Red Deer, St. Paul, Stettler, Stony Plain, Vegreville, Vermillon, Wainright, Westlock, Westaskiwin

Saskatchewan

Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard, Yorkton

Manitoba

Arborg, Brandon, Carman, Dauphin, Killarney, Melita, Morden, Morris, Neepawa, Portage La Prairie, Steinbach, Stonewall, Swan River, Virden, Winnipeg

Ontario

Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kingston, Lindsay, Listowel, London, Lambeth, Nepean, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Québec

Alma, Drummondville, Gatineau, Granby, Joliette, Rock Forest, St-Antoine des Laurentides, St. Jerome, Rivière-du-Loup, St-Georges-de-Beauce, St-Hyacinthe, St-Jean-sur-Richelieu, Ste-Foy, Trois-Rivières, Valleyfield, Victoriaville

New Brunswick

Grand Falls, Roachville, Sussex, St. George, Woodstock, Moncton, Mount Pearl

Newfoundland

St. John's

Nova Scotia

Kentville, Truro

Prince Edward Island

Charlottetown, Summerside

Agri-Land

1801 Hamilton Street
Regina, Saskatchewan
S4P 4L3

Telephone: (306) 780-8411

Fax: (306) 780-7576

Corporate Office

1800 Hamilton Street
Regina, Saskatchewan
S4P 4L3

Telephone: (306) 780-8100

Fax: (306) 780-5456



Corporate Values

Client Service

We are committed to building customer loyalty by consistently providing value with exemplary service.

Trust and Respect

We build client trust and respect by conducting our business in a fair and ethical manner and by being sensitive to client values.

Teamwork

We advocate teamwork and empowerment for staff to do their jobs effectively.

Employee Development

We promote professional development of staff and continuous learning.

Partnerships

We believe in partnerships that further enhance our commitment to agriculture.

Corporate Citizenship

We support community activities consistent with our vision and are sensitive to the protection of our environment.

Diversity

We believe that a diverse workforce reflecting the various backgrounds and cultures of Canadians brings strength to the organization.

FCC Farm Credit Corporation SCA Société du crédit agricole

Canada

Cette publication est également offerte en français.

Farm Credit Corporation • 1800 Hamilton Street • Regina, Saskatchewan • S4P 4L3 • (306) 780-8100

CA1
DB41
-A55

Government Publications



LIBRARY
JUL 12 1999

Agriculture...

FARM CREDIT CORPORATION • 1998-1999 ANNUAL REPORT

FCC Farm Credit Corporation
SCA Société du crédit agricole

Canada



In Memoriam

Roger and Terri-Lynn Schmitz were featured on the cover of FCC's 1996-97 annual report along with young sons Dustin and Colton. A tragic car accident claimed the lives of Roger, Dustin and Colton along with Roger's father, Jake, on April 4, 1999. FCC dedicates this year's annual report to their memory. Our thoughts are with Terri-Lynn and her two-year-old daughter Tiana.



TABLE OF Contents

FINANCIAL HIGHLIGHTS 2
MESSAGE FROM THE PRESIDENT 4
MESSAGE FROM THE CHAIR 6
OBJECTIVES: JOURNEY TO OUR VISION 8
PRODUCT DEVELOPMENT 12
FCC PRODUCTS AND SERVICES 14
LENDING A HELPING HAND IN THE COMMUNITY 18
SENIOR MANAGEMENT 22

MANAGEMENT DISCUSSION AND ANALYSIS
OPERATING ENVIRONMENT 24
FINANCIAL PERFORMANCE 27
RISK MANAGEMENT 32
YEAR 2000 34
PERFORMANCE AGAINST PLAN 35
OUTLOOK 1999-2000 35

FINANCIAL STATEMENTS
RESPONSIBILITY FOR FINANCIAL STATEMENTS 36
AUDITOR'S REPORT 37
FINANCIAL STATEMENTS 38

CORPORATE GOVERNANCE 56

GLOSSARY OF TERMS 64
LOCATIONS ..... Inside Back Cover

MISSION

Our mission is to enhance rural Canada by providing specialized financial services to farming operations – including family farms and small to medium-sized agribusiness – with an emphasis on personalized service.

VISION

Visionary leaders and trusted partners in agricultural financing – putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada.

CORPORATE PROFILE

Farm Credit Corporation is Canada's largest agricultural term lender, offering flexible financing solutions to primary producers and agribusiness. Corporate office is located in Regina, Saskatchewan with 900 employees situated in 110 offices across Canada. FCC's loan portfolio of 72,311 accounts is valued at $5.8 billion. FCC delivers joint programs and services with government agencies and other financial institutions.

. . . IT'S **all** WE DO.



FCC SCA
Farm Credit Corporation Société du crédit agricole
Canada

In this report:

FEATURE STORIES ABOUT OUR CUSTOMERS FROM ACROSS CANADA

BRINGING NEW MARKET POTENTIAL TO NEW BRUNSWICK 7
COMMUNITY AND FCC PITCH IN 13
PATIENCE, FORESIGHT AND COMMITMENT YIELD RETURN IN DAIRY PRODUCTION 14
FINDING A NICHE IN PEA HARVESTING 16
SURFING FOR SERVICE 18
PIG OPERATION ON THE MOVE 17
SWEET SUCCESS IN APICULTURE 20

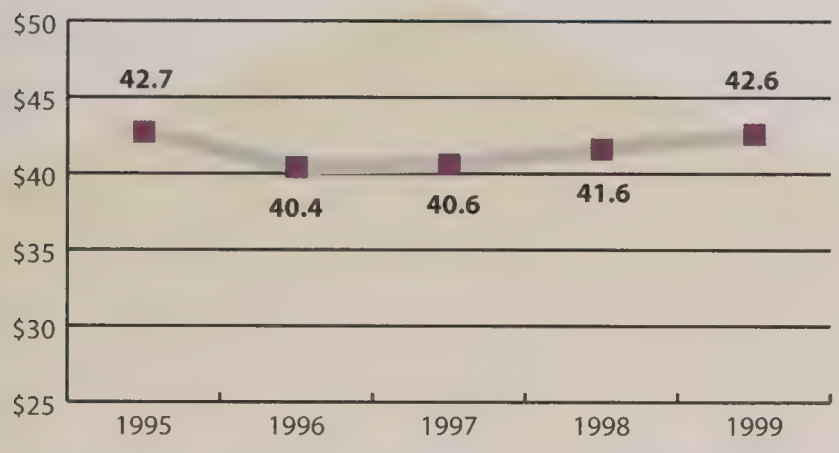
1998-99 Financial Highlights



OPERATIONAL	1999	1998	1997	1996	1995
Total Loans Receivable Portfolio					
Number of Loans	72,311	69,846	65,318	60,250	56,760
Amount ($ millions)	5,843.4	5,318.8	4,687.0	4,066.3	3,535.7
Number of loans approved	14,880	15,488	12,910	10,193	6,428
Amount of loans approved ($ millions)	1,617.4	1,525.2	1,402.9	1,032.7	631.9
Average size of loans approved ($)	108,700	98,500	108,700	101,300	98,300
Percentage of total owing in good standing	94.8	94.3	93.1	94.1	95.4
Real property held at year end					
Number	1,516	1,787	1,982	2,171	2,529
Amount ($ millions)	103.4	123.5	139.6	153.5	196.6

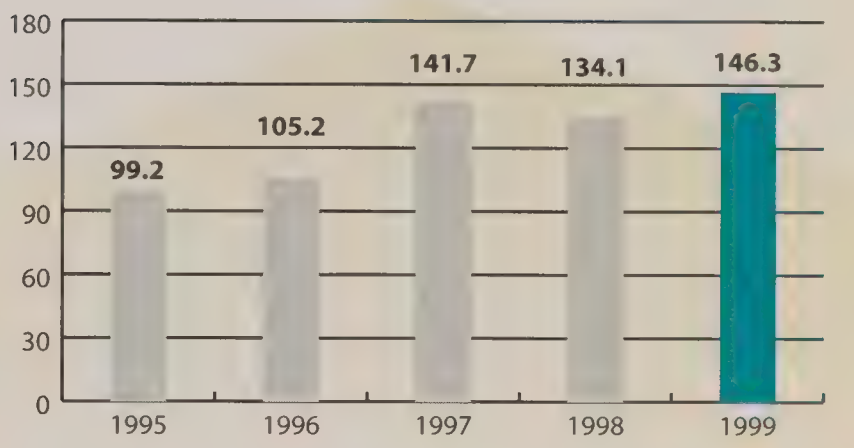
FINANCIAL	1999	1998	1997	1996	1995
Revenues and Expenses ($ millions)					
Net interest income	146.3	134.1	141.7	105.2	99.2
Provision for credit losses	33.2	18.7	24.0	12.1	9.7
Net lease and real estate income	14.7	13.0	7.1	11.3	8.6
Other income	7.1	8.8	5.8	4.2	6.3
Administration expenses	90.1	89.4	83.4	66.6	59.6
Income taxes	2.2	6.2	6.6	1.6	2.1
Net income for the year	42.6	41.6	40.6	40.4	42.7
Financial Position ($ millions)					
Total assets	6,125.1	5,706.2	5,022.4	4,371.4	3,986.3
Total liabilities	5,533.2	5,156.9	4,564.7	3,951.6	3,626.7
Equity	591.9	549.3	457.7	419.8	359.6

NET INCOME
($ millions)



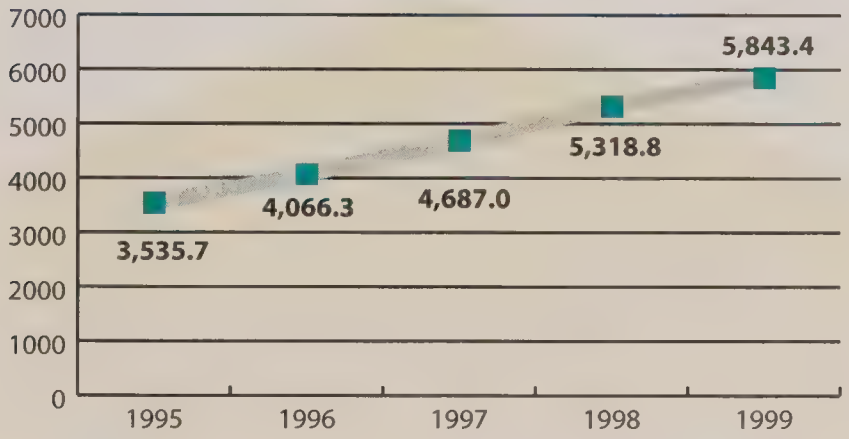
Net Income up 2.4%

NET INTERREST INCOME
($ millions)



Net Interest Income up 9.0%

LOAN PORTFOLIO
($ millions)



6th Consecutive Year of Growth

AS A SOVEREIGN BORROWER, FCC MAINTAINS AN AAA CREDIT RATING.

Message FROM THE President

THE AGRICULTURAL INDUSTRY IS ANYTHING BUT TRADITIONAL AND STATIC AS WE CLOSE THIS CENTURY. THERE IS A TRANSFORMATION UNDER WAY IN A HIGHLY SOPHISTICATED, GLOBALLY COMPETITIVE ENVIRONMENT. FARMERS AND AGRIBUSINESS ALONG THE STAGES OF PRODUCTION – FROM INPUTS, PRIMARY PRODUCER, SECONDARY PRODUCTION, PROCESSING, PACKAGING AND RETAIL – ARE PRODUCING AGRICULTURAL PRODUCTS RECOGNIZED WORLDWIDE FOR THEIR EXCELLENCE.

At FCC, we are driving our own transformation to achieve our vision of leading the way in agricultural financing, ensuring our long-term success for the benefit of the industry we serve.

Our role as Canada's largest agricultural term lender is to work with producers and agribusiness, observing signals, anticipating trends and offering customers innovative financing solutions tailored to the unique needs of the agricultural industry.

LISTENING AND RESPONDING TO PRODUCERS AND AGRIBUSINESS

By listening to customers and industry stakeholders, investing in employees, leveraging technology, and by assuring the Corporation's financial success through the application of sound business practices, we deliver products and services to meet the needs of producers and agribusiness.

For example, the development of the AgriStart line of products in September 1998, which assists developing farmers and family farm transfers, was the direct result of a need identified through customers and industry consultation.

Primary producers continue to be our focus, representing 93.7 per cent of FCC's new lending in 1998-99. Recognizing that a thriving agribusiness sector benefits the producer by opening new market opportunities and enhancing rural Canada by creating job opportunities, FCC has responded. Lending to agribusiness and valued-added enterprises represents 6.3 per cent of the Corporation's portfolio.

THE STRENGTH OF ALLIANCES

Growth in the agricultural industry has always come through innovation, commitment, and hard work. Add to that the right tools and the support of the community, and you have a strategy for success. Building alliances to provide a broader array of financial services and innovative financing packages is one of FCC's strategic thrusts. We work with other financial institutions, credit unions and federal Crowns, as well as Canadian agricultural organizations, to support the growth of the industry. Collectively, we believe we have made a difference. I would like to extend our thanks to our various partners for coming together to help our joint clientele succeed.

PEOPLE WORKING TOGETHER FOR RESULTS

If there is one thing I've learned in my experience over the years, it is that management alone cannot successfully drive change. It takes inspiration and commitment at all levels of the Corporation. FCC staff are passionate about agriculture – they relate to the customer's experience because many farm themselves. Whether they're meeting customers at their businesses or working behind the scenes processing the customer's loan, FCC staff are known for their expertise in agricultural financing.

We believe that investing in people is the key to achieving excellence. FCC committed slightly over $1 million of its expense budget toward training and development programs aimed at enhancing performance and encouraging the transformational thinking so necessary to achieving our vision.

OUR COMMITMENT TO THE INDUSTRY

Solid financial performance over the past nine years has positioned the Corporation to serve farmers and agribusiness through all economic cycles. Sound business and risk management practices coupled with a sufficient equity base affords both producers and FCC more flexibility during economic downturns.

This fiscal year, falling commodity prices had an impact on the agricultural economy and more particularly, hog and cereal grain producers. FCC credit advisors proactively contacted many of their customers to help them determine and address individual challenges. We urged customers to approach us early if they were anticipating difficulties in order to review options and design solutions tailored to their particular operations.

Despite recent difficulties in these sectors, the agricultural industry has recorded several years of strong growth in Canada during a period of optimism and good prices. This in turn is reflected in the growth of FCC's loan portfolio to $5.8 billion as of March 31, 1999 from $3.5 billion in 1995.

With the industry witnessing rapid change, producers and agribusiness need a lender with incomparable knowledge and unique solutions. We know that it is not enough to keep pace with agriculture's transformation. Ultimately, we must be ahead of the industry to best help customers.

Our role as Canada's largest agricultural term lender is to work with producers and agribusiness, listening to signals, anticipating trends and offering customers innovative financing solutions tailored to the unique needs of the agricultural industry.

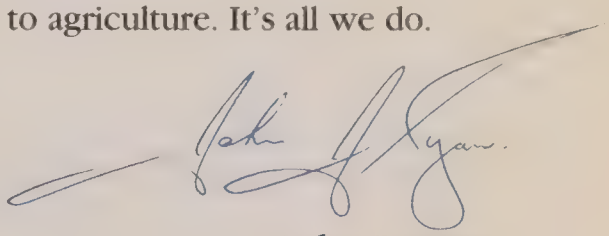
This is why we have enunciated a vision to become visionary leaders and trusted partners in agricultural financing – putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada. These are more than just words.

We have pledged our commitment to be leaders in agricultural financing. We are known for the fact that our customers can count on us, during the good times and bad. FCC staff are acknowledged experts in agricultural financing. We will build on these qualities.

I would like to thank FCC staff for their contributions throughout the year as well as our future-oriented Board of Directors, whose support is tangibly assisting us in attaining our vision. The Corporation will continue to be 100 per cent dedicated to agriculture now and in the future. Our customers can count on receiving the type of service they need to bring their plans to fruition. They also can look forward to increasingly innovative lending products and alternative delivery channels for service to suit their needs.

We are making changes to better serve our agricultural and agribusiness customers. But one thing about FCC won't change – our dedication to the industry we serve.

We are solely committed to agriculture. It's all we do.



John J. Ryan
President and Chief Executive Officer

Message FROM THE Chair

SUCCESSFUL PEOPLE DON'T CONFINE THEIR TALENTS TO THE OFFICE. THEY SHARE THEIR INTELLECT, ENTHUSIASM AND ENERGY WITH THE COMMUNITY. THIS SENSE OF SHARING IS WHAT MAKES THE FCC CULTURE STAND OUT. OUR VISION TO 'LEAD THE WAY' IN AGRICULTURAL FINANCING EXTENDS BEYOND BALANCE SHEETS AND BUSINESS PROCESSES TO INCLUDE 'MAKING A DIFFERENCE' IN THE COMMUNITIES WHERE EMPLOYEES AND CUSTOMERS LIVE AND WORK.

Our mandate is to enhance the quality of life in rural Canada. We are committed to working with others with like objectives to foster vibrant communities throughout rural Canada. The continued growth and success of our customers depends on this, as does that of our organization.

The members of the FCC Board of Directors are equally committed to giving back to their communities. Each one is an agricultural industry leader in their own right – both in their individual businesses and in their communities where they contribute to worthwhile initiatives such as 4-H, the Outstanding Young Farmers program, local marketing boards and Chambers of Commerce.

We are also proud to report that FCC is leading the way for other Crown corporations and many private sector companies in community relations activities. Our employees have a superior track record of community involvement. In 1998, FCC launched an official corporate community relations program to formalize our goal of being a 'neighbor of choice.' Putting commitment into action, FCC has joined other similarly-minded Canadian corporate citizens in the *Imagine* program by pledging to invest one per cent of pretax profits annually in community-based initiatives and programs aimed at improving the quality of life for residents of communities across Canada. Being a neighbor of choice means more than money; it includes lending a helping hand when and where needed.

This belief in giving back to the community is tangibly demonstrated in hundreds of acts – both large and small – by employees across Canada. Moncton staff banded together and raised funds to help send a co-worker to Africa to visit her sick mother whom she had not seen since coming to Canada. With the news of a six-year-old boy needing a bone marrow transplant to treat his leukemia, hundreds of employees registered in the Unrelated Bone Marrow Donor Program through Canadian Blood Services. Whether participating in a fundraiser for a local charity or mentoring a young person who wants to establish a career in agriculture, employees and members of the Board reach out to their communities every day and are, in turn, richly rewarded for their efforts.

FCC's board members possess a passion for community and agriculture, which they bring to policy discussions about the course of FCC and which underlies each decision made.



We have endless opportunities to apply our industry knowledge and our spirit of citizenship across Canada. The Board takes pride in being able to participate in the continuing growth of FCC's contributions to agriculture and efforts to support rural communities.

Respectfully submitted on behalf of the Board of Directors,

Donald W. Black
Chair

MESSAGE FROM THE MINISTER



If there is one message that has been driven home in the past few years in Canadian agriculture, it is that farming is a global business. Canadian producers are responding to volatile international commodity markets by diversifying into crops and livestock with strong potential for growth, working to expand value-added production in their own communities and harnessing technology to increase returns. This intensive effort requires a considerable amount of capital. By providing financing to primary producers and small and medium-sized agribusiness, Farm Credit Corporation is investing in the future of Canadian agriculture and helping to expand global trade. In the past year, the federal Crown corporation has delivered about $1.6 billion in new lending to agricultural customers from coast to coast. The Government of Canada supports the growth of profitable agricultural and agri-food trade as an important means of strengthening the industry as a whole. Today, nearly half of every dollar earned by primary producers comes from international trade. This ratio likely will increase in the future as Canadian producers continue to extend their reach from the farm into the global marketplace.

– THE HONOURABLE LYLE VANCLIEF,
MINISTER OF AGRICULTURE AND AGRI-FOOD.

Bringing new market potential to New Brunswick

CANNEBERGES ACADIENNES

"WITH THE SUPPORT OF BOTH THE NEW BRUNSWICK MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT, AND FARM CREDIT CORPORATION, WE WERE ABLE TO TAKE OUR KNOWLEDGE OF CRANBERRY PRODUCTION AND OUR ENERGY TO CREATE NEW OPPORTUNITIES IN AGRICULTURE AND AGRI-FOOD WITHIN THE PROVINCE."



BENOÎT RICHARD AND ODETTE HACHÉ

THE LEADING EDGE IN CRANBERRY PRODUCTION:

- First to commercially harvest cranberries in New Brunswick, 1997.
- Processed 45 per cent of 1998 production into cold-pressed juice, cranberry/orange/Grand Marnier spread, purée and whole cranberries in a light syrup.
- 'Richard' products were introduced to Atlantic Canada in spring 1999.
- *Canneberges acadiennes* provides consulting services to new cranberry producers.

START UP:

- Began in 1994 with venture capital accessed through a perennial crop loan from New Brunswick's Ministry of Agriculture and Rural Development.
- Additional long-term financing and expansion funds provided by FCC.

IMPACT ON LOCAL MARKET:

- Cranberry production has grown from zero to 300 acres in five years with the prospect of future job creation to support cranberry production and processing.

INTERNATIONAL MARKETS:

- Products tested and used by award-winning chefs in Canada and France.
- Served at a Government of Canada-sponsored dinner at Germany's international bi-annual food fair, ANUGA, in 1997.
- Served at the 35th anniversary celebration of the Okura Hotel in Tokyo in 1996 when Québec chefs presented *Canneberges acadiennes* products in their creations.
- Samples distributed to contacts in Japan, England and the United States.

Journey TO OUR Vision

PERFORMANCE AGAINST OBJECTIVES 1998-99



Customer Loyalty

DEVELOP, PROMOTE AND DELIVER AGRICULTURAL FINANCIAL SOLUTIONS THAT MEET THE NEEDS OF CANADIAN FARMERS.

- Create products and services that address the market needs of primary producers and agribusiness
- Develop a customer relationship management program to ensure that all customers receive service throughout the life of their FCC loan

Product and service excellence yields excellent results

- FCC lending hit $1.6 billion in 1998-99, surpassing our $1.4 billion projected by 14 per cent and our previous year's lending of $1.5 billion by 6.0 per cent

Innovative new products custom-designed for specific agricultural needs

- AgriStart – a unique family of products for intergenerational transfer and developing farmers was launched in September. By year-end, 563 producers had borrowed $66 million, exceeding our $35 million forecast by 90.6 per cent.
- Tailored the New Brunswick Land Clearing Loan and the New Brunswick Blueberry Loan in cooperation with the provincial government, to meet the specialized needs of local producers.
- Designed the Agri-Land Loan to help FCC tenants purchase their land, as part of an ongoing effort to return FCC land holdings to their original owners.

Enhanced products in response to customer feedback

- Improved and extended the Plant Now – Pay Later Loan to all fruit growers wishing to renovate or expand their operation
- Enhanced flexible terms by adding repayment options to seven and 10-year term loans

Customized financing for agribusiness

- Partnered with other financial institutions to provide customized financial solutions for agribusiness clients
- Approved 136 new agribusiness loans, for a total of $104.1 million.

Improved customer relationship management

- Piloted Managing Local Markets – a new customer relationship management system based on market needs, to ensure that our customers get the specialized one-on-one service they deserve

OBJECTIVES 1997 – 2002

TO MEET THE EVOLVING NEEDS AND CHALLENGES OF THE AGRICULTURAL INDUSTRY, FCC WILL SEEK OUT NEW SERVICES, NEW DELIVERY CHANNELS AND NEW MARKETS

1999-2000 Goals and Measures

1. **Offer customers innovative products and services** resulting in $1.0 billion in new loan disbursements to primary producers.
2. **Establish strategic alliances** to ensure farmers can access a broader range of financial services
3. **Grow our agribusiness portfolio** by developing specific strategies, resulting in $262 million in new agribusiness loan disbursements.
4. **Develop and implement a customer relationship management** system to enhance customer-driven culture and best serve FCC clients.
5. **Develop non-interest-based products** and services targeted to customer groups.

PROACTIVELY AND CONSISTENTLY COMMUNICATE FCC'S PURPOSE, VISION AND SERVICES TO ALL EXTERNAL PUBLICS AND STAFF.

- Introduce a community relations program to support community initiatives
- Develop and launch an Internet site to improve access to FCC information
- Share expertise through speaking opportunities
- Increase awareness of FCC through increased media contact
- Enhance FCC's ability to provide service in both official languages

Enriching our communities

- Launched a national community relations program to enhance the communities where FCC employees and customers live and work
- Joined the Canadian Centre for Philanthropy's *Imagine* group of caring companies committed to giving one per cent of pretax profits to charitable and not-for profit activities in Canada.
- Dedicated $415,800 to national and local community activities in 1998–99.

FCC goes live on the Net

- Launched Internet site June 1998. Visitors can access information on FCC, its products and services; view, download and request e-mail subscriptions to news releases and publications; complete preliminary loan assessments; view employment opportunities and submit resumés; and contact FCC directly via e-mail or interactive feedback forms
- The site drew 10,604 visitors and 105 preliminary loan assessments resulting in $903,000 in loans by March 31, 1999.

Exchanging ideas and sharing expertise – FCC executives address industry groups

- FCC executives shared their knowledge and expertise in agricultural financial management with industry and stakeholder groups, including the Canadian Federation of Agriculture, *l'Union des producteurs agricoles*, Canadian Young Farmers Forum, Canadian Horticultural Association, Keystone Agricultural Producers, and the Atlantic Farm Challenges Conference.

Enhancing service in both official languages

- Established linguistic position profiles and initiated new language training programs to better serve our clients in the official language of their choice.

ENSURE THAT STELLAR COMMUNICATION REMAINS A SUCCESS FACTOR AT FCC THROUGH PROACTIVE AND CONSISTENT MESSAGING REGARDING FCC'S PURPOSE, VISION AND SERVICES TO ALL EXTERNAL PUBLICS AND STAFF VIA STAKEHOLDER RELATIONS, CUSTOMER INTERACTION AND COMMUNITY SPONSORSHIPS

ENHANCE CANADIAN AGRICULTURE THROUGH PROACTIVE DEVELOPMENT AND IMPLEMENTATION OF PUBLIC AFFAIRS AND PUBLIC INITIATIVES.

Bringing agricultural issues to the forefront

- FCC staff personally briefed Members of Parliament in rural constituencies on its products and services.
- As changes impact the financial services industry, FCC addressed the Standing Committee on Finance and the Senate Standing Committee on Banking, Trade and Commerce on the needs for agricultural financing.
- FCC executives met with provincial agricultural ministers and deputy ministers to share information and expertise and strengthen partnerships.
- Established a government and industry affairs office in Ottawa to enhance communications between FCC and key stakeholder representatives.

"Leading the way in agricultural financing

VISIONARY LEADERS AND TRUSTED PARTNERS – PUTTING THE POWER OF SPECIALIZED AND TIMELY KNOWLEDGE AND INNOVATION TO WORK FOR FARM FAMILIES AND AGRIBUSINESS ACROSS CANADA.

Leading the way in agricultural financing – a journey more than a destination, a statement of aspiration. We will advance through careful planning and strategic action, one step at a time charting our course with a five-year strategic plan. This plan is our blueprint providing the most effective service to customers now and in the future.



Employer Excellence

REALIZE MAXIMUM EMPLOYEE POTENTIAL THROUGH THE CREATION OF A COMPREHENSIVE HUMAN RESOURCES MANAGEMENT FRAMEWORK

- Provide training and staff development programs to ensure the continued delivery of expert and personalized customer service
- Introduce a succession-planning program, which identifies high potential individuals and helps develop them
- Conduct a review of the current pension plan and recommend changes, if necessary, for implementation in 1999–2000

Improving customer service through front-line staff development

- A new and improved Credit Advisor Development program introduced ensures that our customers continu receiving top-notch service by FCC's largest employee group who interact with our customers directly

Developing management excellence

- FCC's first ever succession planning framework has bee designed and is ready to identify high potential among professional level employees and to identify potential successors for management positions
- "Best ever" is how the Leadership Development Progra delivered at the Banff Centre for Management was rated by participants of the first of three modules

Technology

ENHANCE CUSTOMER SATISFACTION AND IMPROVE INTERNAL EFFICIENCY THROUGH BUSINESS PROCESS REENGINEERING AND THE STRATEGIC USE OF TECHNOLOGY TO POSITION FCC FOR THE NEW MILLENNIUM.

- Ensure Year 2000 Readiness
- Develop and implement management reporting tools
- Process improvement of the loan origination system
- Implement the reengineered loan maintenance process and reengineered appraisal process

Year 2000 Ready

- Year 2000 preparedness plan is on track following the execution of a comprehensive project led by senior management. For a more detailed discussion on Year 200 see page 34

Technology Plan in sync with business needs

- Developed a three-year plan, in consultation with an industry specialist, to upgrade FCC's information technology environment
- Work continued on the loan origination system and the data warehouse, a virtual data storage facility, to provide more detailed information on customer needs
- Replaced one third of FCC's systems, including appraisal systems, scorecard and general ledger

Financial Success

FCC WILL BE FINANCIALLY VIABLE OVER THE LONG TERM, ENABLING FCC TO WORK WITH FARM FAMILIES AND AGRIBUSINESS TO ACHIEVE THEIR VISION.

- Achieve a Return on Equity (ROE) of 7.2 per cent
- Introduce an integrated risk-management program to take a corporate-wide approach to monitoring risk
- Develop a methodology to measure return on resources employed
- Generate average funding costs flat to five basis points below government benchmark bonds to contribute to higher margins

Return on investment target exceeded

- Surpassed all targets with a year-end ROE of 7.5 per cent
- Consulted with industry specialists to design an Integrate Risk Management framework, to be implemented over a three-year period
- Developed a methodology to measure return on resource employed and a formalized project approval process

Global financial turmoil affects margins

- Global financial turmoil last year contributed to a general widening of credit spreads for borrowers including FCC; borrowing costs for 1998-99 were 12 basis points over Canada's

Pension Plan Review

- FCC's participation in the Public Service Superannuation Plan has been assessed for its effectiveness in linking overall compensation with the needs of FCC employees and corporate strategy.
- A mandate to bring forth innovative options was given to management by the Board of Directors to provide pension coverage that meets the needs of all employees.

OBJECTIVES 1999 – 2004

PROVIDING THE BEST SERVICE TO FCC CUSTOMERS BY CREATING A WORK ENVIRONMENT WHICH WILL ATTRACT AND RETAIN THE BEST PEOPLE.

1999-2000 Goals and Measures

1. **Recruit and develop** the highest calibre employees, so that 90 per cent of new hires successfully pass probation. Recognizing the correlation between customer satisfaction and high calibre employees, FCC will survey to establish customer satisfaction targets.
2. **Maximize customer service** while improving employee productivity through a work environment that fosters innovation, knowledge and diversity. Success will be measured through the Human Resources Index survey.
3. **Assist employee development** through learning opportunities via assignment to inter-disciplinary projects, coaching and training with a success rate of 85 per cent (measured learning retention). FCC will invest 3.5 per cent of salary budget in training.

OBJECTIVES 1999 – 2004

- FCC leveraged technological resources toward completely revamping the corporate strategic planning and budgeting process.

Processing centres revamped for greater efficiency

- The Financial Analysis and Concurrence Centres were amalgamated in two locations, Ottawa and Regina, to streamline the lending process and offer more efficient customer service.

VAL – reengineering the appraisal process

- Introduced VAL, a fully shareable, centralized database of real estate sales and valuations, which permits quick and accurate appraisals.

OBJECTIVES 1999 – 2004

CONTINUOUS IMPROVEMENT OF BUSINESS PROCESSES THAT WILL RESULT IN HIGHER QUALITY CUSTOMER SERVICE, REDUCED COST OF OVERALL SERVICE DELIVERY AND INCREASED PRODUCTIVITY.

1999-2000 Goals and Measures

1. **Design innovative ways to deliver services** to customers internally and externally resulting in a reduction of the administration expense ratio, increased portfolio and increased net income per employee.
2. **Develop cost-effective and flexible technology** architecture and business applications to enhance customer service and support FCC's business needs.
3. **Improve availability and data quality** of corporate information by establishing enhanced customer data requirements.

OBJECTIVES 1999 – 2004

CONTINUED FOCUS ON FCC'S LONG-TERM FINANCIAL VIABILITY, ENABLING PROVISION OF SUPERIOR SERVICE AND RELEVANT PRODUCTS WHILE OFFERING COMPETITIVE PRICING TO CUSTOMERS.

1999-2000 Goals and Measures

1. Realize **stable and profitable asset** growth with returns in excess of the Government of Canada's cost of capital. Measures for success:
   - *ROE of 5.7 per cent,*
   - *ROA of 0.55 per cent,*
   - *debt to equity 9.7:1,*
   - *loan portfolio growth of 6.2 per cent.*
2. **Diversify FCC's reliance on interest income** by identifying other revenue sources.
3. **Maintain and improve corporate margins** by setting specific lending margins and sourcing cost-effective funding.

THE MAKING OF AN FCC

Product

IN 1998-99, FCC INTRODUCED A PRODUCT DEVELOPMENT PROCESS THAT COVERS EVERY STAGE FROM CONCEPTION TO DELIVERY. FCC'S AGRISTART PRODUCT LINE, DESIGNED FOR DEVELOPING FARMERS, MADE ITS SUCCESSFUL DEBUT FOLLOWING THIS PROCESS.



"To offer customers the best possible service, we must continue to introduce high-quality products and improve existing product lines. Our new product development process makes creating innovative solutions much easier."

*– **Shelley Legin**, Vice-President, Marketing and Product Development*

The first step in any successful product development process is to determine customer needs. FCC began its search for product excellence by commissioning a national survey to ask producers where they saw gaps in the current lending marketplace.

Their response was clear. Most respondents felt that more products are needed to help developing farmers and farm families with:

- starting or expanding agricultural and agribusiness enterprises; and
- transferring farm assets from one generation to the next.

Once customer needs were identified, FCC followed a strict product development process to help ensure the successful delivery of the right products.

PRODUCT DEVELOPMENT PROCESS

- **Gather ideas** through customer comments, field staff, industry stakeholders and market research.
- **Assess the market potential** and technical viability of each idea through a cross-functional task force of representatives from Operations, Legal Services, Information Technology and Treasury
- **Develop detailed business cases** for each concept; screen ideas based on projected results.
- **Examine product development and implementation**, considering resources, associated risks, rewards, issues or opportunities.
- **Create and test** a prototype of the product in a real market situation.
- **Evaluate test results** against the business analysis to confirm that the product meets customer expectations.
- **Test pilot** new products in a limited market.
- **Refine** product for a successful delivery.
- **Launch** product.

PRODUCT DEVELOPMENT PROCESS BRINGS POSITIVE RESULTS

FCC staff across the country report strong customer interest in the AgriStart family of loans. Since the launch, 563 customers looking to either start or expand their farming operations borrowed $66.7 million. The new development process will be the prototype used to launch more innovative products in the years to come.

"This product development process will help us anticipate marketplace trends and provide customers with the tools they need to succeed now and into the future."

*– **Louise Neveu**, Executive Vice-President and Chief Operating Officer*

READY, SET, AGRISTART!

On September 15, 1998, the Honorable Lyle Vanclief, Minister of Agriculture and Agri-Food, and John Ryan, FCC President and CEO, unveiled AgriStart at the opening of the International Plowing Match and Farm Machinery Show in Sunbury, Ontario.

*AgriStart consists of three products: The **1-2-3 Grow Loan** is ideal for producers and agribusiness operators starting or expanding an enterprise that will have limited income during the start-up period. The **Payday Loan** is designed for individuals who use off-farm income to fund their agricultural operations. The revamped **Family Farm Loan**, first introduced in 1993, has new features to assist with the transfer of farming assets from one generation to the next.*

agristart



Fire Devastates Dairy Operation:

Community and FCC pitch in to help



RICHARD AND MARJORIE WALSH

OCEANVIEW FARMS, A DAIRY FARM OWNED AND OPERATED BY RICHARD AND MARJORIE WALSH FOR 22 YEARS, STANDS ATOP A HILL OVERLOOKING THE TOWN OF BAY BULLS, NEWFOUNDLAND. ONE NIGHT IN JUNE 1998, THE BARN CAUGHT FIRE, BRINGING FIRST CALAMITY AND THEN COMMUNITY.

"Family and friends from the community came out to help – within 20 minutes there were about 100 people. We opened doors and gates and just let everything go. At first, the fire was confined to one area. In 20 minutes, we had every cow out and then she just lit up," remembers Richard. "There was nothing left."

The building and equipment valued at $260,000, including a milking parlor, computer feeders and dairy equipment, was destroyed. Seven of the 80 cows died. Over the three months that it took to rebuild the barn, the Walshs experienced a loss of production due to the stress on the environment and the move. During that time, they lost another 10 per cent of their cows. Suffering another setback, the herd was later struck with IBR, a type of pneumonia that affects the lungs, killing five more cows.

FCC PITCHES IN

Like the fire, news spread quickly. That night, the Walshs' FCC Credit Advisor, Christine Wheaton, heard about the fire over the radio. "I waited two days for things to settle down for them and then I went to visit," Christine said. "They were devastated by the fire, of course, but they told me that they were glad that I had come. I was glad to show my support during this very difficult time."

Insurance covered 80 per cent of the loss. Richard and Marjorie called Christine two days later to arrange for financing of the remaining 20 per cent to rebuild their dairy barn. "There was no hesitation. Christine gave us options and helped us put together a package."

"We were able to approve their loan within 48 hours. Richard and Marjorie were very happy to obtain approval so quickly because they were anxious to begin rebuilding."

*– **Christine Wheaton**,*
FCC Credit Advisor

Thanks to incredible community support, the barn was up and operating three months and two days after the fire.

In spite of the fire and the disease, Oceanview Farms was awarded second prize for the most stable production in 1998. Richard and Marjorie held a barn dance with live music to celebrate the opening of their new barn and to thank the volunteers. About 450 people attended. FCC provided the signage, which stands proudly on their property today as a symbol of partnership.

"I would like to stress that it wouldn't have been possible to do this without the help of the family. We are very pleased," Richard said. "It's given us a new lease on life. That's how we see it today."



FCC Products Services

LOAN PRODUCTS:

Variable Rate Loan
FCC offers a unique Variable Rate Loan for any agricultural or farm-related purpose, such as land, buildings, quota, equipment or livestock, secured by real or personal property.

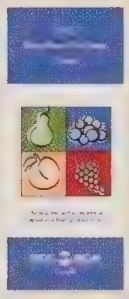
One-Year Convertible Loan
FCC's One-Year Convertible Loan offers the best of both worlds. It provides the flexibility of short-term lending when rates are dropping, while allowing the borrower to switch to a longer term rate at any time should rates begin to rise.

Long-Term Loans
FCC provides fixed interest rate terms of up to 20 years and amortization periods between three and 29 years to provide long-term stable options for Canadian farmers.

Personal Property Loan
This is a practical loan for a practical purpose – purchasing new and used equipment, quota or breeding stock. Two to 10-year amortization periods with quarterly and semi-annual payment options are available.

AgriStart
This innovative line of loans is designed to help families transfer farming operations from one generation to another as well as assist developing farmers in starting or expanding their operations. The AgriStart Plan encompasses the following three products.

- The **Family Farm Loan** enables the developing farmer to finance the purchase of farm assets or transfer shares in a family farm business. Successfully launched in 1993, it has been updated and streamlined to increase flexibility and serve a wider market.
- The **1-2-3 Grow Loan** provides financing with deferred payment options to farmers starting or expanding an enterprise that will have a reduced income stream for one to three years.
- The **Payday Loan** is designed for individuals with off-farm employment who are interested in starting or expanding a farm business.



Plant Now – Pay Later
FCC understands that expanding a horticultural operation often results in a reduced income stream for a number of years. Plant Now – Pay Later loans are customized to meet the needs of our vibrant fruit-growing industry.

Farmbuilder Construction Loan
Financing for building projects is easier with this innovative product that provides interim financing for construction. The Farm Builder Construction Loan applies to any type of construction project eligible for FCC financing. No payments are required during the first year and funds are disbursed as needed during the project.

Shared-Risk Mortgage
This mortgage cushions the impact of rising interest rates and provides stability by minimizing exposure to fluctuating interest rates. FCC and the borrower split equally any interest rate fluctuations.

New Brunswick Wild Blueberry Initiative
Offered in cooperation with the New Brunswick Department of Agriculture and Rural Development, this loan is designed to further develop New Brunswick's wild blueberry and associated pollination industries. This initiative assists with land development and the addition of new beehives for wild blueberry pollination.

EMERGING SECTOR SERVICES:

Aquaculture
FCC offers financing options that support salmon, fresh water fish or shell fish operations. Our staff has the specialized knowledge to assist with financial requirements for expanding aquaculture businesses including purchasing barges, cages, nets, smelt, feed, tanks, hatcheries, processing equipment, construction costs, land and site leasing.

Silviculture
FCC offers specialized lending services for the forestry industry including loan products for buying forestry equipment, expanding existing forestry operation, buying land.

OTHER SERVICES:

Land Sales & Leasing

FCC's property division, Agri-Land Sales & Leasing, manages FCC's land holdings and provides farmland management services for owners and tenants.

Feeder Finance Program

FCC finances feeder livestock through several livestock business alliances as well as numerous feeder finance co-operatives across the country.

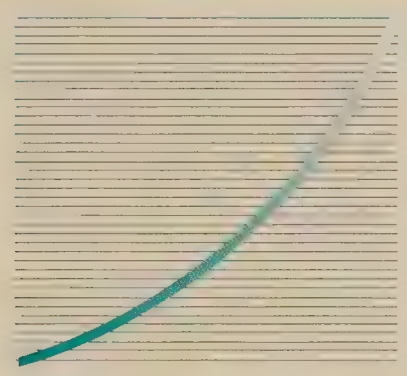
National Dealer Equipment Financing Program

The program assists dealers who do not have finance programs available or who wish to give their customers an alternative to their current program, by allowing them to provide financing to their clients through FCC.

Agricultural Value-Added Program

In co-operation with Western Economic Diversification and CIBC, FCC assists Western Canadian agricultural value-added firms in accessing debt capital.

INVESTMENTS:



FCC Medium and Long-Term Notes

FCC's Medium and Long-Term Notes are issued daily at competitive market interest rates, for maturities ranging from one to 10 years. The notes are sold by investment dealers who act as agents for FCC and give investors the opportunity to invest in Canadian agriculture. These notes are issued by FCC to raise capital that is used to support Canadian Agriculture.



Patience, Foresight and Commitment Yield Returns in Dairy Production

"WORKING WITH THE RIGHT PEOPLE AT THE RIGHT TIME MADE THIS POSSIBLE. I DON'T THINK WE'D BE FARMING WITHOUT FCC. THEY ARE ALWAYS 'FARM-MINDED' — ESPECIALLY WHEN IT COMES TO QUOTA LOANS. OUR CHALLENGE IS TO ADJUST TO WHATEVER COMES. BY MANAGING OUR DEBT LOAD AND KEEPING COSTS DOWN, WE CAN STRENGTHEN OUR POSITION."

John and Karen Devet moved to Alberta in 1990 with $30,000, two vehicles and a desire to run a dairy farm. They started milking 40 cows on rented land near Stettler, Alberta, with 200 litres of fluid and approximately 4,000 kilograms of market share quota. Less than a decade later, they own a 100-cow dairy.

STRATEGY FOR SUCCESS:

"Invest only in things that will make money — in dairy production, that's quota. If you don't have milk coming into the tank, you don't make money. It's that simple," says John Devet. "Working together is very important. We've made a lot of sacrifices during the years in order to build up our quota — but we've done it together," agrees Karen.

FIRST LAND PURCHASE:

In 1995, the Devets purchased a quarter section near Ponoka, Alberta through a joint loan between FCC and the Agriculture Financial Services Corporation. The original land included a workshop and a quonset barn. They purchased a mobile home, where they still live with two-year-old daughter Shelby.

IMPROVED PRODUCTION AND DEDICATION EQUALS PERFORMANCE:

Through animal selection based on performance and working with a nutritionist, the Devets' production per cow climbed from 8,000 litres/cow in 1990 to 10,500 litres/cow in 1999, yielding a more than 25 per cent increase in production.

AGRICULTURAL FINANCE EXPERTISE HELPS REALIZE GOALS:

Since the original purchase, FCC has partnered with the Devets through the many stages of growth, including building the dairy barn that will house approximately 150 milking cows as well as quota and equipment.

Finding a Niche in Pea Harvesting



BUILT ON A FOUNDATION OF FIVE GENERATIONS OF FARMING, MIKE MACAULEY FARMS IS MORE THAN A CORPORATE ENTITY. IT IS A DIVERSIFIED FARMING OPERATION AND ONE OF THREE CUSTOM PEA HARVESTING OPERATIONS IN CANADA. A FAMILY TRADITION WITH AGRICULTURAL ROOTS AND A STRONG SENSE OF FAMILY, MIKE AND JOY HAVE RAISED THEIR FIVE CHILDREN, BILL, PAM, SARAH, KATIE AND MIKE IN THE ORIGINAL HOUSE BUILT IN 1846 WHEN THE MACAULEYS FIRST SETTLED NEAR TRENTON, ONTARIO.

SMALL FARM ROOTS:

- The Macauleys started with 50 acres in 1978. They now own 550 acres and rent 1,200, growing corn, soybeans, wheat and oats.
- In the eighties, Mike expanded into custom pea harvesting. Today, he operates four pea harvesters, worth $384,000 each. He employs five people full time, as well as seasonal workers during harvest. Among the crew are his eldest son Bill who works full time on the farm, and Katie, 16, and Mike, 11, who both drive a pea combine.
- After the pea harvest ends in August, the crews continue harvesting wheat, oats, soybeans and field corn into the fall.

THE ROAD TO SUCCESS RARELY RUNS SMOOTH:

- When a pea processing plant near Trenton expanded in 1988, Mike saw an opportunity to expand his custom harvesting operation to supply peas to the plant.
- In 1997, the plant went into receivership, owing Macauley Farms almost a half million dollars. At the same time, Mike suffered a heart attack.

DETERMINATION PAYS OFF:

- Despite these setbacks, Mike secured a harvesting contract with a major pea farming operation in southwestern Ontario. During the summer of 1998, he and his crew lived in tents and trailers and worked around the clock to help the customer bring in the crop within the six-week harvest period. This farming operation is still his major customer to this day.
- Recently, Macauley Farms was rated as the most efficient harvester in North America by OXBOW, one of two pea harvester manufacturers on the continent.

QUOTE:

- Mike applies the same enthusiasm and sense of teamwork to his business that he does to coaching his son's hockey team, which he has guided to three Ontario championships. "No one person can do everything. Like in hockey, our crews all work together as a team. We would also like to express our deepest thanks to Farm Credit Corporation and our Credit Advisor Bill Adam for helping us get back on the road to recovery."

Surfing for Service

New Farmer Obtains Loan Through Technology and Teamwork



Karen and Gilbert Gregory operate a 1,200 acre grain farm about 60 miles east of Calgary. They frequently surf the net for seed and chemical suppliers, as well as machine parts. When their 22-year-old son Grant decided to start building his own farming operation, they went to FCC's web site for financing.

They filled out FCC's preliminary assessment form on the site and sent it in. By the next morning, they had already received a response from FCC. A follow-up meeting with Credit Advisor Bruce Gordon completed the loan process. Gilbert was so impressed that he came to FCC for his next loan.

Pig Operation on the Move

RICK KLASSEN'S PASSION FOR AGRICULTURE WASN'T BRED IN THE BONE. HIS FATHER WAS A SCHOOL TEACHER, NOT A FARMER. HOWEVER, THE SMALL-TOWN BOY SPENT ENOUGH TIME AT RELATIVES' FARMS TO DECIDE AT AN EARLY AGE THAT IT WAS HIS FUTURE. "IT WAS REALLY THE ONLY THING I EVER WANTED TO DO." IN THE YEARS SINCE, HE AND WIFE KAREN HAVE COMBINED A SHARED PASSION FOR FARMING WITH AN ACUTE BUSINESS SENSE TO RUN A SUCCESSFUL PIG OPERATION NEAR WATROUS, SASKATCHEWAN. A FEW YEARS AGO, THEY FORMED TWO CORPORATIONS WITH THREE OTHER FARMING COUPLES AS PARTNERS. THE PARTNERS AND SHAREHOLDERS HAVE BUILT AN INTEGRATED BUSINESS THAT HANDLES PIGS FROM NURSERY TO FINISH.



HOW THEY STARTED:

- In 1986, the Klassens bought a small farming operation. By 1991, they had increased capacity to 240 sows and began raising breeding stock for an international genetics company. A few years later, they started growing barley for feed.

DECIDING TO INCORPORATE:

- In 1995, the Klassens decided to form a partnership with former employee Gerald Wall and his wife, Muriel. The two couples created Salty Lake Farms Inc.
- To integrate more fully and increase capacity further, Salty Lake Farms entered a partnership last year with two other couples who farm nearby – Ross and Betty Shantz and Don and Pat Shantz. Together, they started Dellwood Pork Inc. The operation raises pigs from weaner (about 21 days old) to finish and sells to processors in Canada and the Northern United States.
- While giving up total autonomy was difficult at times, Rick Klassen says the benefits of incorporating far outweigh the challenges. "You don't have to take every decision by yourself," he explains.

EXPANSION PLANS:

- The partners worked with FCC to finance a $1.6 million expansion of Dellwood Pork, completed in March 1999 that increased capacity to 14,000 pigs a year.
- A $500,000 expansion of Salty Lake Farms was completed in April, resulting in a 750-sow capacity.
- The partners plan to double the size of Dellwood Pork in five years.

DEALING WITH ECONOMIC CYCLES:

- While he anticipated the cyclical nature of the hog industry, Rick did not expect the depth of the 1998 downturn. The businesses lost a significant amount per pig last fall and early winter.
- However, as prices continue to recover in 1999, they have weathered the worst and are increasing profitability. The recent expansions provide definitive proof of the partners' confidence in the hog industry over the long term.

FCC'S KENDRA MUELLER – PARTNER FOR THE LONG HAUL

Rick said that FCC Credit Advisor Kendra Mueller has been with them every step of the way since the creation of Salty Lake Farms. She was eager to learn more about their operation in order to provide financing to fit their particular needs.



"We've taken some risks and people have given us some opportunities. If you're standing still, you're probably going backwards."

Lending a helping hand

Sharing in the good times as well as the bad.
Earning trust.

WE ARE NEIGHBORS

Since 1959, FCC staff have been neighbors to our farming and agribusiness clients. We understand their business. We work hard to help them succeed. And we care about the quality of life in the communities we share. That's why we have articulated our new social vision - *to be a neighbor of choice, leader and trusted partner in the communities where our customers and employees live and work across Canada.*

OUR COMMITMENT . . .

is to help strengthen rural Canada by supporting community organizations that work in farm communities from coast to coast. In 1998-99, Farm Credit Corporation became a proud member of the Canadian Centre for Philanthropy's *Imagine* program. Founded in 1988, it challenges Canadian companies to address issues facing communities and to increase support to voluntary organizations.

As a member of *Imagine*, FCC has committed to give a minimum of one per cent of pre-tax profits to charitable and community organizations each year; in 1998-99 FCC contributed $415,800 to not-for-profit organizations.

By lending a helping hand, FCC lends action to spirit and contributes to improving the quality of life in our communities.



HABITAT FOR HUMANITY: GREG STEWART, VICE-PRESIDENT, RISK MANAGEMENT (FOREGROUND) AND JOHN RYAN, PRESIDENT & CEO (BACKGROUND), ALONG WITH THE ENTIRE SENIOR MANAGEMENT TEAM HELPED BUILD A HOME FOR A REGINA FAMILY.

"We initiate. We participate. We challenge."
***- John J. Ryan**, President and CEO*

FCC believes that true corporate giving means more than just donating money. FCC offers support to communities through in-kind contributions of products or services, loaned representatives for fund-raising campaigns and employee voluntarism. FCC also encourages other organizations and businesses to contribute to community giving.

FCC's **CEO challenge for Habitat for Humanity** demonstrated the power of leadership and partnership, challenging local executives and businesses to make a minimum $5,000 contribution to Habitat for Humanity and to help build homes for six families. Ten "CEO Challenge" teams gathered at the Ed Schreyer Work Project in Regina.



DON STEVENS, JANET WIGHTMAN, KELLIE GARRETT AND MARSHALL STACHNIAK LEAD BY EXAMPLE: SENIOR MANAGEMENT PARADED IN COSTUMES IN DOWNTOWN REGINA TO KICK OFF THE ANNUAL UNITED WAY CAMPAIGN.

OUR COMMUNITIES . . .

include organizations dedicated to the agricultural industry. FCC is a long-time supporter of: the **Canadian Federation of Agriculture**, a farmer-funded, national umbrella organization, with a membership of 200,000, dedicated to the continued development of a viable and vibrant agriculture and agri-food industry in Canada; the **Outstanding Young Farmers Program**, which recognizes the young men and women who have achieved success and leadership in farming; and the **United Way**, an umbrella organization that helps the worthy causes of over 30 different organizations, including Farmers With Disabilities, a Saskatchewan Abilities Council program.

During the annual corporate-wide United Way campaign, staff pledged their support through payroll deductions as well as their creativity through *fun-raising* initiatives during an intense four-month campaign. Some of the events included karaoke nights, hallowe'en parties, wine and cheese samplers and staff breakfasts. John Ryan, President and CEO, led the way in the 1998–99 United Way campaign through his commitment to serve as Chapter Chair on the United Way Cabinet. The Corporation raised $90,000 through employee contributions, fund-raising events and FCC-matched contributions.



PULLING FOR AGRICULTURE

More than 13 teams participated in FCC's first annual **Great Little Tractor Pull**, a fund raiser conceived by FCC for Adopt-A-Family, United Way of Regina, Regina and District Food Bank, and Farmers with Disabilities. FCC matched each team's donation to raise $25,000 for four worthy charitable organizations.

TERRY KREMENIUK, VICE-PRESIDENT, AGRIBUSINESS, LEADS COW – CLAD GARY GALE, ELLIE RUSK AND LYNDON CARLSON, AS WELL AS THE *BOVINELY* DRESSED ATINA FORD AND SCOTT MCCALL IN A FUN EVENT FOR CHARITABLE ORGANIZATIONS.

"Today, more than ever, it is essential for young people in rural Canada to have access to the education and training needed to ensure their success in agriculture."

*– **Ted Young**, Canadian 4-H Council President and FCC Account Manager*





ROBIN CRISTO, CA, ASSINIBOIA OFFICE PRESENTS 4-H AWARD TO CHARLA GIRAVDIER OF WILLOW BUNCH, SASKATCHEWAN

A longstanding supporter of the **Canadian 4-H Council,** FCC's annual scholarship program awards sixteen $1,000 scholarships to 4-H members and members of L'Association des jeunes ruraux du Québec or Québec Young Farmers.

4-H is a rural, community-based organization that develops life skills such as citizenship, leadership, co-operation, responsibility and independence in youth through achievement in individual and club projects. Members have the opportunity to participate in a wide variety of club projects that encourage membership from both farm and non-farm rural youth.

Pledging its support for the future of farming, FCC announced a $150,000 five-year partnership with **Canadian Young Farmers Forum**, a group dedicated to ensuring a voice for future farmers.

"A large number of Canadian farms will be changing hands in the next decade. Partnerships such as this will help prepare the next generation of farmers for the challenges and opportunities they will face in the 21st century." – John Ryan

FCC partnered with **Computers for Schools** with the pledge to offer 170 of its own computers to the program. The Computer for Schools program has been extremely successful in obtaining computers and identifying schools and libraries with specific needs. To date, about 90,000 computers have been delivered nation-wide. The program's challenge is to deliver 250,000 computers by March 31, 2001. FCC employees have volunteered to deliver the computers in rural areas, saving the program thousands of dollars in shipping costs. This initiative reflects the Corporation's commitment to enhancing the quality of life in Canada's farming communities.

We demonstrated our firm commitment to quality of life in communities across Canada, by supporting the **Canadian Coalition for Agricultural Safety and Rural Health, Agriculture in the Classroom**, ***Fédération de la relève agricole du Québec***, and the **Health Promotion program** of the **University of Regina**.

In support of the ***Union des producteurs agricoles***, FCC sponsored *the Grand Jeu De La Mondialisation du Commerce Agroalimentaire*, a trade game which is designed to trigger strategic thinking in the advent of upcoming trade talks which will establish the Americas as a free trade zone for agricultural products.

SDWF
Safe Drinking Water Foundation

SAFE DRINKING WATER

FCC donated money and technical services to help the **Safe Drinking Water Foundation (SDWF)** raise awareness about the impact of poor drinking water in rural areas by helping SDWF produce a newsletter and build and launch a website.

Across the country . . .

"Meeting the children at the Sunrise Equestrian Centre was the highlight of my career at FCC."
***- Jaye Atkins**, Marketing Officer, Guelph*



Jaye Atkins found out how good it feels to give back to the community when he delivered a cheque for $1,000 to the **Sunrise Equestrian Centre**, which is dedicated to helping disabled children develop skills and confidence through riding programs.



Glen Svenungard, Credit Advisor, Stony Plain, Alberta, Rick Dehod, Recovery Officer, Edmonton, and Marcel Lemire, Account Manager, Agribusiness, Edmonton rode in the **Multiple Sclerosis Bike Tour**, raising over $3,500 for MS research and family support services in Alberta.



ANGELA PADDY, TERRI SMALLBOY, LEONARD HORSE, LAURA HORSE, JOE ANGUS, TIM WEEKUSK, ROLLAND WEEKUSK, RUSTY PADDY, DEBBIE JIMMY, LINDA OKANEE, FRED THUNDERCHILD, MAGGIE KING AND JERRY OKANEE VISITED THE SECHELT INDIAN BAND IN BRITISH COLUMBIA WITH HELP FROM FCC.

A journey of self-realization: thirteen students of the Thunderchild High School in Turtleford, Saskatchewan learned about self-government in action when they visited the Sechelt First Nation in British Columbia, the first Band in Canada to obtain self government (1986). FCC was pleased to join in the sponsorship team that supported the students in their journey.

FCC's
Senior Management Team

CHAMPIONING DIRECTION. INSPIRING EMPLOYEES.



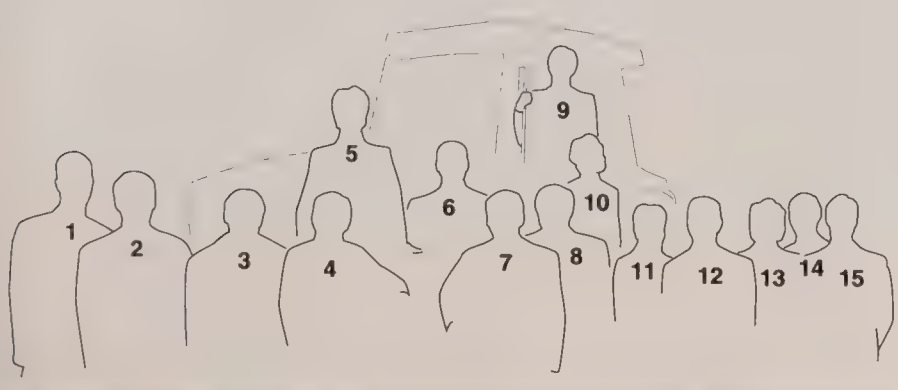
STRONG LEADERSHIP AND MANAGEMENT PRINCIPLES PLAY A KEY ROLE IN GUIDING THE CORPORATION TOWARD ACHIEVING ITS VISION.

This action-oriented team is accountable for developing, in concert with the Board of Directors, the strategy necessary to achieve FCC's vision. Focusing their efforts on challenging and inspiring employees to surpass creativity and performance, they seek to achieve excellence in product and service development and delivery. Applying sound business principles and monitoring performance, they set priorities and manage progress toward the achievement of objectives, including financial success so necessary to provide stellar customer service.

Members are expected to act in good faith, exercise care, skill and diligence in accordance with the *Financial Administration Act*, adhering to the highest ethical standards of business, professional and personal conduct, including avoidance of conflicts of interest as specified in the *Employee Conduct and Ethics Policy*. At all levels FCC management is committed to making FCC an employer of choice by creating a positive, professional and ethical environment.

Senior Management is compensated in keeping with compensation policies and scales approved by the Board of Directors. Salary ranges for the Chief Executive Officer position ranged from $163,800 to $204,800; Executive Vice-President ranged from $128,260 to $189,340. Compensation for Vice-Presidents ranged from $104,410 to $138,200. All executives are paid within their respective ranges and receive a variable component linked to the performance of the Corporation, the business unit and the individual. Total cash compensation paid to the Senior Management Team of $1,937,023 reflects the full year that the new and complete team was in place. The Governor in Council sets salary and benefits of the CEO. All other executive salary ranges and specific salaries are set by Corporate Policy.

The Executive Committee, a subset of the full Senior Management Team, is comprised of the President and Chief Executive Officer, Executive Vice-President and Chief Operating Officer, Executive Vice-President and Chief Financial Officer, Vice-President, Agribusiness, Vice-President, Farm Finance and Vice-President, Human Resources and Business Processes. Mandated to act on broad strategic direction and establish corporate priorities, the Executive Committee is the principal decision-making authority. Total cash compensation paid to the Executive Committee for the fiscal year was $870,575 and is part of the total cash compensation paid to the Senior Management Team.



1 – **GREG STEWART,** *Vice-President, Risk Management*
2 – **DALE CANHAM,** *Vice-President, General Counsel & Corporate Secretary*
3 – **MARSHALL STACHNIAK,** *Vice-President, Farm Financing*
4 – **TERRY CRAIG,** *Vice-President, Risk Management (Retired June 1999)*
5 – **LOUISE NEVEU,** *Executive Vice-President and Chief Operating Officer*
6 – **M. BLAKE WALKER,** *Vice-President and Treasurer*
7 – **JOHN J. RYAN,** *President and Chief Executive Officer*
8 – **TERRY KREMENIUK,** *Vice-President, Agribusiness*
9 – **KELLIE GARRETT,** *Vice-President, Communications and Public Relations*
10 – **JANET WIGHTMAN,** *Vice-President, Human Resources and Business Processes*
11 – **LINDA YEO,** *Vice-President, Information Technology*
12 – **MOYEZ SOMANI,** *Executive Vice-President and Chief Financial Officer*
13 – **SHELLEY LEGIN,** *Vice-President, Marketing and Product Development*
14 – **ANDRÉ TETREAULT,** *Assistant Vice-President, Corporate Audit*
15 – **DON STEVENS,** *Vice-President and Controller*

Sweet Success in Apiculture

"APICULTURE WAS CONSIDERED A HIGH-RISK ENTERPRISE AT THE TIME AND WE HAD DIFFICULTY FINDING VENTURE CAPITAL. IF FCC HAD NOT BEEN THERE, INTERMIEL WOULD NOT EXIST IN QUÉBEC."
– VIVIANE MACLE



Rated as number one among 49 agricultural enterprises in Quebec's Outaouais-Laurentian region, Intermiel is considered to be a leader and one of the greatest ambassadors of the bee-keeping industry. In 1998, the company was awarded the *Mérite agricole* in the Bronze category, an award of merit given every five years by the provincial department of agriculture.

OPERATION:
- 2,000 beehives and 15,000 taps.
- Harvest honey into mead and honey by-products.
- Prepare gift baskets.
- Harvest maple syrup.

THE SWITCH TO VALUE ADDED:
- Interpretation centre and gift shop.
- Intermiel now receives 100,000 visitors per year – of which 20,000 are school children – and employs 12 to 30 people depending on the season.

PRODUCT EXPOSURE:
- Intermiel products are available in 200 to 300 points of sale across the province, depending on the season.
- Five different mead products are available at the *Société des alcools du Québec* (Québec liquor board).
- First sought after as a local tourist attraction, Intermiel has become a preferred agro-tourism destination.
- Maple products are also offered to complete a wide variety of original products appreciated by corporations and individuals.


CHRISTIAN AND VIVIANE MACLE
INTERMIEL
SAINT-BENOÎT-DE-MIRABEL, QUEBEC

MANAGEMENT

Discussion and Analysis

Operating Environment

Canada's agricultural industry is rapidly transforming to compete effectively in an increasingly global marketplace. This transformation affects the entire spectrum of agriculture - from inputs and primary production to value added and the consumer. Farmers, input suppliers, equipment dealers, processors and manufacturers are working together to create new markets and expand existing ones.

Tremendous growth in the agriculture and agri-food industry is expected in the next several years. The industry has set the target of increasing agri-food exports to four per cent of the world's total trade by the year 2005, effectively doubling our current exports from $22 billion to approximately $40 billion per year.

Canadian producers and agribusiness are the driving force in meeting these goals. Their ability to anticipate trends, produce high-quality products and adopt leading-edge technologies and processes will determine Canada's share of the global agricultural and agri-food market in the next millennium.

This push to be competitive requires capital. Producers are making the necessary capital investments to increase their productivity and profits.

As Canada's largest agricultural term lender, FCC is working with producers and agribusiness operators to help them make the necessary investments to succeed with financing tailored to the unique needs of this industry.

THE INESCAPABLE EFFECTS OF CHANGING DEMOGRAPHICS

World population is projected to grow from 5.5 billion today to 8.5 billion in 2025. This growth, combined with continued migration from rural to urban areas and higher standards of living in developing countries, means that food production and processing must almost double by the year 2025. Canadian producers can be assured of continued strong demand for food products.

North America's biggest demographic group - the baby boomers - is aging and demanding more healthy, nutritious and convenient choices. For example, consumption of fresh fruit and vegetables in Canada has increased by 30 per cent in the past 20 years.

The aging of baby boomers has a direct impact on rural Canada. As more farmers approach 60 and start making retirement plans, about half of Canadian family farms are expected to change hands in the next 10 years.

The financial industry must be prepared to help the next generation take over the family farm. In 1998, Farm Credit Corporation introduced the AgriStart Family Farm Loan to facilitate the transfer of farming assets from one generation to the next.

PUSH TO DIVERSIFY

Primary producers are recognizing that diversifying their product provides greater protection from the cyclical nature of most commodity prices. They are exploring emerging niche markets governed by changes in the consumer market place.

Producers are diversifying to meet the rising demand for health foods, fresh fruits and vegetables and lower-fat meat. Farmers are increasing production of such specialty crops as chick peas, lentils and canary seed. There are now more than 1,000 alternative livestock operations across Canada, including elk, bison and emu. Many producers have diversified into berry production, taking advantage of developing markets for cranberries and blueberries.

INDUSTRY SHIFT TO VALUE ADDED

Canada's value-added production sector, building on the example of co-operatives and food processing companies, as well as non-food production is poised for significant growth.

As a nation, we have long been aware of the need to counterbalance our traditional dependence on international commodity markets by developing our own processing industry.

The Canadian food processing industry is coming of age. In fact, in 1998, for the first time, Canada's trade in value-added products outstripped commodity sales. With another round of World Trade Organization negotiations on the horizon and increased pressure from the United States to further reduce subsidies, Canadians will have to be even more innovative in adding value to the top-quality commodities we produce.

We have seen ample evidence in the past several months of the volatile nature of global markets. Producers have been severely challenged by the downturn in international prices for cereal grains and hogs. By adding value to primary production within our borders, producers reduce exposure to unstable global commodity prices and increase margins. Even more importantly, our growing processing industry creates jobs and contributes to local economies across rural Canada.

The agri-food industry, which includes primary agriculture, food and beverage processing and retail, wholesale and food services, contributes significantly to the economy. The third-largest manufacturing industry in Canada, it comprises 3,200 food and beverage-processing establishments and 13 per cent of total manufacturing employment.

FINANCIAL INDUSTRY TRANSFORMS

Twenty years ago, the only financing instruments available to farmers were mortgages, farm equipment loans and insurance policies. Today, primary producers and agribusiness can choose from a variety of financing options and service providers. The financial industry is rapidly evolving to include new players, products and delivery channels. In 1999, a farmer might purchase a piece of equipment and arrange lease financing from an equipment dealer, negotiate a loan for next year's chemicals from a supplier and research new loan products over the Internet.

Use of electronic transactions is on the rise. Experts predict that by the year 2010 almost half of all financial transactions will be online. This shift to e-commerce will have a dramatic effect on financial institutions and their customers. Through FCC's Internet site, customers have access to products and services as well as online loan applications.

Canadian producers will be able to choose from an ever-widening spectrum of foreign financial institutions, either through Canadian branch offices or over the Internet. As well, more non-traditional lenders will enter the market, including suppliers, insurance companies and brokerage houses.

These changes in the financial industry reinforce the need for differentiation to help farmers and agribusiness choose from a growing array of options. FCC's strategy is to build on its strengths such as specialized knowledge of agriculture and partnership building with customers and agricultural industry players. FCC's goal is to fully support current customers and attract new ones, offering products that are competitive, innovative and targeted to meet emerging needs.



PARTNERSHIPS AND ALLIANCES

As the agricultural industry of the future takes shape, the agricultural and financial industries must develop ways of financing promising new primary production and agribusiness markets in the form of loans and venture capital.

With new markets and opportunities comes risk. As a result, it is becoming increasingly difficult to achieve success as a lone player and far easier to gain access to expertise, technology and production capacity through alliances in one form or another.

This trend toward partnerships is not confined to the agricultural industry. The financial sector is driven by the same market forces – including new technologies, diversification and increased global competition – that the agri-food industry is experiencing.

The financing needs of larger and more integrated farming operations can easily break the million-dollar barrier. Agribusiness start-ups require significant capital. As a result, a dramatic change is occurring in agricultural financing. More and more financial institutions are looking to partnerships and alliances to pool resources and reduce risk when financing major agri-food enterprises. These alliances help provide the amount and variety of financing options that this market requires.

FCC frequently works in partnership with other financial institutions, such as chartered banks, credit unions, Crown corporations and government agencies to provide more complete financing packages. Often, we supply the term loans for buildings, land, equipment and other assets while our partners provide loans for operating purposes.

The financial sector also is beginning to work in partnership with agricultural input suppliers such as equipment dealers and fertilizer companies. These suppliers enter an alliance with a financial organization to bundle their products with financial services. Through its National Dealer Equipment Financing Program, FCC has established partnerships with dealers across Canada to provide credit on competitive terms and conditions that may not be otherwise available through many of those dealerships.

We are living in the Information Age, where producers are exposed to a constant flow of information on changing consumer trends, new technologies and new international markets. Producers must decide which trends are passing fads and which ones will determine the future of their operations. Competitive financial institutions must anticipate the trends that will affect customers' financing needs.

As we look back over the 20th century, the face of the agricultural industry has changed. It is global. Competitive. Insightful. Entrepreneurial. Harold MacKay, Chair of the Task Force on the Future of the Canadian Financial Services, said: "change comes through the actions of leaders, entrepreneurs and innovators."

Today's leaders, agricultural and agribusiness entrepreneurs and innovators will drive the growth and progress of the agricultural industry. They will depend on the lending services and equity investment of the financial community in order to realize their goals. They will require their financial partners to be every bit as innovative, driven and visionary as they are in pursuing success. FCC embraces this challenge.

Did you know . . .

- APPLES ARE CANADA'S #1 FRUIT CROP WITH ABOUT 530,000 TONNES GROWN EACH YEAR.
- THE MOST VALUABLE VEGETABLE CROP IN CANADA IS POTATOES. CANADA PRODUCES APPROXIMATELY $600 MILLION WORTH OF POTATOES EACH YEAR.
- THERE ARE MORE THAN 12,000 MAPLE SYRUP PRODUCERS IN CANADA.
- APPROXIMATELY 11,000 BEEKEEPERS MAINTAIN ALMOST 500,000 BEEHIVES.
- THE MOST CELEBRATED CANADIAN WINE IS ICE WINE, A SWEET DESSERT WINE PRODUCED FROM GRAPES WHICH HAVE BEEN FROZEN ON THE VINE AND PRESSED WHILE STILL FROZEN.
- NORTH AMERICAN GINSENG HAS BEEN EXPORTED FROM CANADA TO ASIA SINCE THE 18TH CENTURY, WHEN JESUITS DISCOVERED THE PLANT GROWING WILD IN CANADIAN FORESTS.
- THE AVERAGE CANADIAN FARM PRODUCES ENOUGH FOOD TO FEED 120 PEOPLE.
- CANADA IS THE LARGEST PRODUCER OF WILD BERRIES.
- ABOUT 22 MILLION LAYING HENS PRODUCE SIX BILLION EGGS IN CANADA.
- CANADA IS THE FIFTH LARGEST PRODUCER OF HONEY IN THE WORLD, BEHIND CHINA, THE UNITED STATES, MEXICO AND ARGENTINA.
- CANADIAN DAIRY CATTLE, RECOGNIZED FOR THEIR DISEASE-FREE STATUS AND THEIR ABILITY TO PRODUCE HIGH QUANTITIES OF MILK OVER MANY LACTATIONS, ARE EXPORTED TO OVER 50 COUNTRIES.
- MANY OF THE WORLD'S TOP PASTA PRODUCERS, SUCH AS ITALY AND TURKEY, IMPORT LARGE QUANTITIES OF CANADIAN DURUM TO MAKE PASTA.
- THERE ARE APPROXIMATELY 37,000 BISON ON CANADIAN FARMS.

(Source: Agriculture and Agri-Food Canada)

Financial Performance

TABLE 1 – KEY FINANCIAL RESULTS

$ Millions	1999 Actual	1998 Actual
Net income	42.6	41.6
Net interest income	146.3	134.1
Net interest margin (%)	2.47	2.50
Loan approvals	1,617.4	1,525.2
Loans receivable	5,843.4	5,318.8
Loan renewal rate (%)	96	95
Arrears	31.8	29.7
Administration expense	90.1	89.4
Efficiency ratio (%)	57.7	60.9
Return on equity (%)	7.5	8.3
Return on assets (%)	0.72	0.77
Debt to equity	9.3:1	9.4:1

1998-99 HIGHLIGHTS

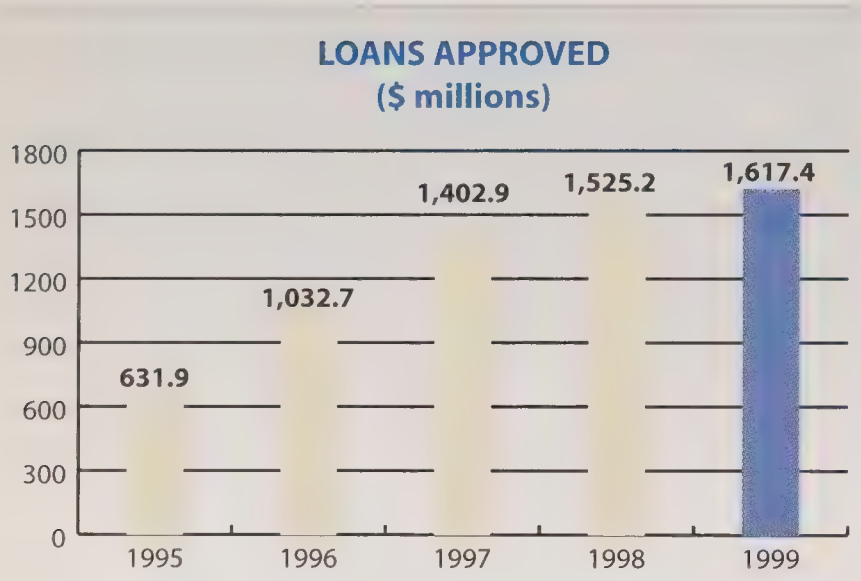
- Net income of $42.6 million was slightly better than last year's result of $41.6 million.
- Net interest margin of 2.47 per cent compares to 2.50 per cent in the previous year.
- Loans receivable portfolio increased by $524.6 million or 9.9 per cent.
- Administration expenses remained steady at $90.1 million.
- Return on equity of 7.5 per cent declined from the prior year's result of 8.3 per cent.
- Debt-to-equity ratio of 9.3:1 improved from last year's 9.4:1.

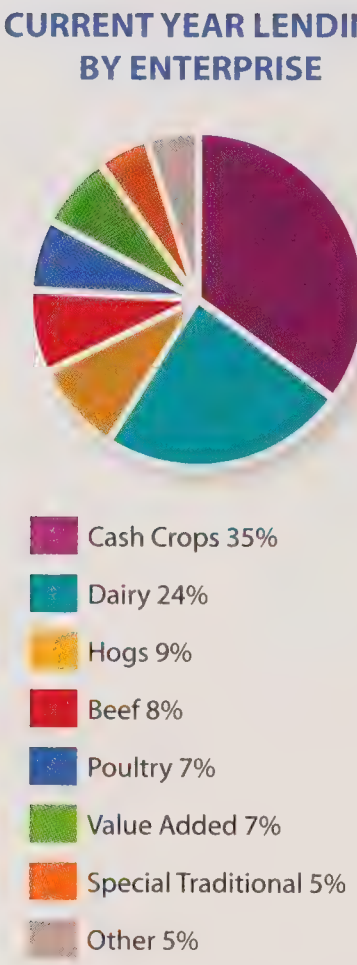
TABLE 2 – GEOGRAPHIC DISTRIBUTION - LOANS RECEIVABLE PORTFOLIO AS AT MARCH 31

	1999 Number of Loans	1999 Amount ($ Millions)	1998 Number of Loans	1998 Amount ($ Millions)
British Columbia	1,877	250.1	1,872	233.2
Alberta	9,327	860.6	8,497	765.8
Saskatchewan	23,620	1,250.4	22,975	1,174.9
Manitoba	7,895	549.9	7,771	481.1
Ontario	17,220	1,753.7	16,573	1,586.8
Quebec	8,378	810.4	8,294	731.1
New Brunswick	1,774	150.1	1,827	149.0
Nova Scotia	863	87.1	734	79.7
Prince Edward Island	1,116	104.3	1,079	95.4
Newfoundland	241	26.8	224	21.8
National	72,311	5,843.4	69,846	5,318.8
Allowance for credit losses		214.2		182.7
Loans receivable, net of allowance for credit losses	72,311	5,629.2	69,846	5,136.1

LOAN PORTFOLIO

Fiscal 1998-99 was the sixth consecutive year of portfolio growth, up $524.6 million from 5.3 billion at March 31,1998. This increase represents a growth rate of 9.9 per cent, bringing the loans receivable portfolio to $5.8 billion at March 31,1999. As an indication of client satisfaction, 96 per cent of current customers chose to renew their loans compared to 95 per cent last year, suggesting that FCC's products and services are meeting customers' needs.





LENDING ACTIVITY

Volume of business

During 1998-99, FCC approved 14,880 loan applications with a value of $1.6 billion compared to 15,488 and $1.5 billion respectively in 1997-98. The 3.9 per cent decrease in loan approvals reflects difficulties in the cash crop and hog sectors affected by low commodity prices. The average loan size increased from $98,500 in 1997-98 to $108,700 this fiscal, reflecting a growing agribusiness sector.

Primary production

Primary production consists of traditional farming activities, including crops, beef, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock.

Cash crops and dairy enterprises continue to dominate new lending activity at 35 and 24 per cent respectively. New lending in the poultry and dairy sectors increased slightly, while crops and hogs decreased from previous years. Approvals for primary production amounted to $1.3 billion for fiscal 1998-99.

Agribusiness

Agribusiness lending contributes to the economic diversification and strength of Canadian agriculture, helping to build a strong future for producers and their communities. Lending for seed, vegetable and cheese processing plants, as well as abattoirs and other value-added businesses, creates alternatives for farmers to market their commodities.

FCC approved 136 agribusiness loans with a net value of $104.1 million for an average loan size of $765,000. While these statistics reflect loans made strictly to value-added enterprises, it is noteworthy that many of FCC's primary production loans also include investment in value-added businesses.

Alliances

Alliances with equipment dealers, input suppliers and livestock brokers combine FCC products with established distribution channels resulting in convenient financing alternatives for producers. FCC also partners with other financial institutions to offer a wider array of products for primary production and agribusiness customers. In 1998-99, alliance loans approved totaled 3,881 with a net value of $217.7 million.

***Outlook 2000:* Lending activity is expected to reflect the continued diversification of primary production necessary to compete in the global economy.**

NET INCOME

Net income of $42.6 million for the year ended March 31, 1999 was slightly higher than the previous year's result of $41.6 million. This favorable variance is a result of substantial loan growth and strong results from the real estate portfolio, offset by increases in provision for credit losses.

NET INTEREST INCOME

Net interest income was $146.3 million, ahead of the prior year's net interest income of $134.1 million. Loan volume growth of $524.6 million or 9.9 per cent was a key driver toward the increase in net interest income.

Net interest margin, which expresses net interest income as a percentage of average assets, was 2.47 per cent in 1998-99, compared to the prior year's 2.50 per cent. The stable net interest margin indicates that net interest income growth is keeping pace with the asset growth experienced this year.

TABLE 3 – NET INTEREST INCOME AND MARGIN

$ Millions	1999	1998
Interest income		
Loans receivable	442.3	408.2
Investments	25.9	22.8
	468.2	431.0
Interest expense		
Short-term debt	50.0	29.5
Long-term debt	271.9	267.4
	321.9	296.9
Net interest income	**146.3**	**134.1**
Average total assets	5,915.6	5,364.3
Net interest margin (%)	**2.47**	**2.50**
Year over year change in net interest income due to:		
Changes in volume	28.5	
Changes in rates	(16.3)	
	12.2	

PROVISION FOR CREDIT LOSSES

Management assesses the carrying value of the loan portfolio and determines the appropriate allowance for credit losses as described in Note 2(c) of the financial statements. During fiscal 1998-99, the provision for credit losses was $33.2 million compared to $18.7 million in the previous fiscal. The increased provision reflects a larger portfolio as well as a more conservative estimate of the overall allowance for credit losses largely attributable to greater uncertainty in the agricultural economy.

Outlook 2000: Net interest income growth is expected to be consistent with portfolio growth. Due to uncertainties in the agricultural economy, lower lending activity and higher provision for credit losses are forecasted.

NET LEASE AND REAL ESTATE INCOME

Net lease and real estate income for the year ended March 31,1999 was $14.7 million, up from $13.0 million last fiscal. Revenue from land sales represents recovery of substantial write-downs incurred in prior years.

This fiscal, sales of 123,855 acres totaled $32.7 million compared to 98,082 acres for $28.0 million in 1997-98. With acquisitions of $0.6 million, FCC holds 604,054 acres with a book value of $103.4 million.

FCC has a mandate to lease and eventually return land to the former owners where feasible. At fiscal year end, 96 per cent of the land held by FCC was leased, compared to 98 per cent in prior year. Of the total leased acres, approximately 99 per cent was leased to former owners.

Outlook 2000: FCC will continue to reduce its property holdings with sales to former owners wherever feasible.

NET LEASE AND REAL ESTATE INCOME (continued)

TABLE 4 – AGRI-LAND PROPERTY HOLDINGS AS AT MARCH 31

	1999		1998	
	Total Acres	Acres leased	Total Acres	Acres leased
British Columbia	433	433	433	433
Alberta	6,193	6,154	8,297	8,000
Saskatchewan	566,762	544,371	680,556	665,833
Manitoba	28,407	27,923	33,917	33,917
Ontario	1,957	1,797	2,123	1,898
Quebec	0	0	73	0
New Brunswick	0	0	1	0
Nova Scotia	302	302	302	302
Newfoundland	0	0	1	0
National	604,054	580,980	725,703	710,383

OTHER INCOME

Other income, comprised mainly of appraisal, service fee and insurance revenues, was $7.1 million for the year ended March 31,1999, compared to last year's result of $8.8 million.

ADMINISTRATION EXPENSES

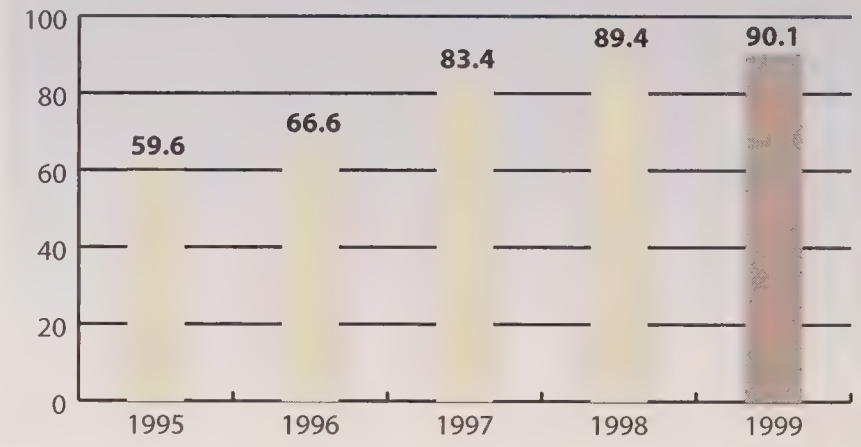
Administration expenses were $90.1 million, slightly higher than $89.4 million the year previous. FCC uses an efficiency ratio, which represents the expenses incurred to earn a dollar of revenue, as a performance measure. At March 31,1999, the efficiency ratio was 57.7 per cent, an improvement over last year's 60.9 per cent.

***Outlook 2000:** The efficiency ratio is expected to improve as management continues its focus on cost control and process improvements. Administration expenses are expected to remain flat despite the growth in portfolio.*

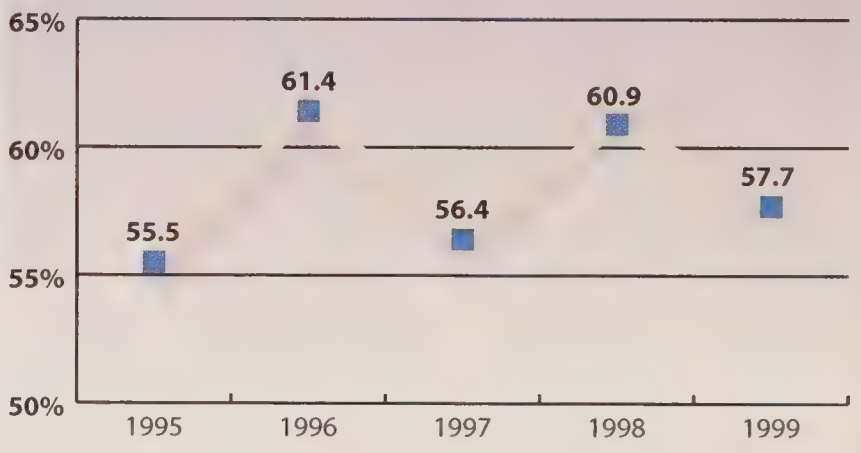
INCOME TAXES

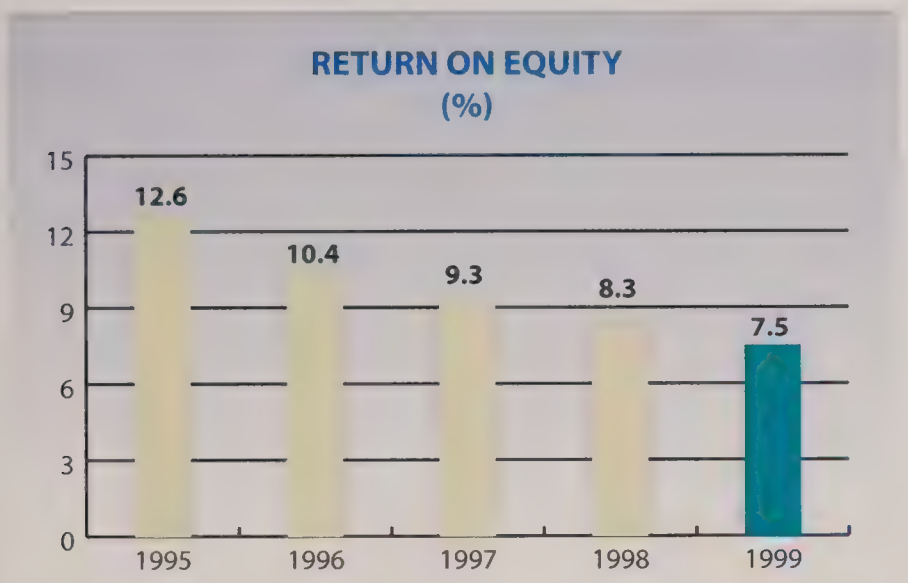
Income tax expense for 1998-99 was $2.2 million, considerably lower than the prior year's expense of $6.2 million. This reduction is primarily due to the elimination of Part VI tax as a result of the Corporation's exit from the Net Income Stabilization Account (NISA) program as described in Note 10 of the financial statements.

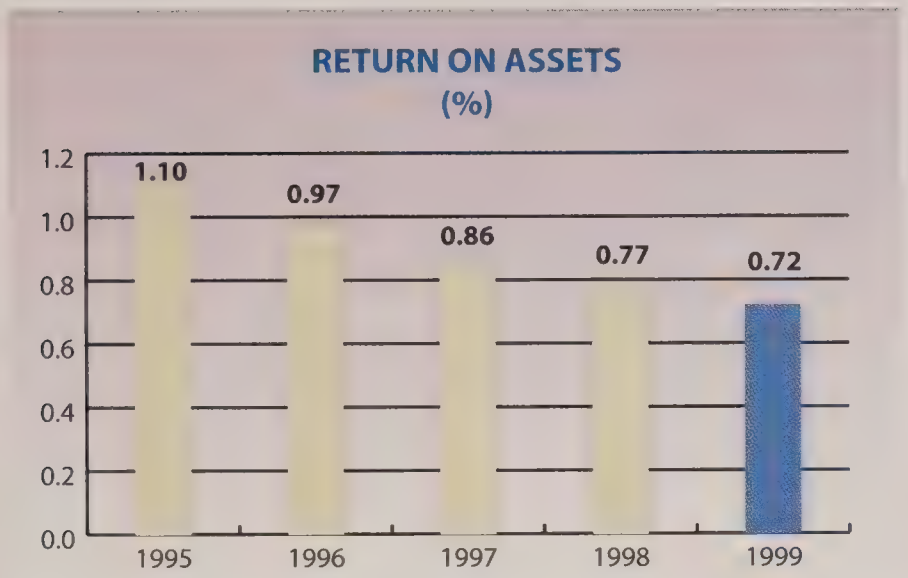
ADMINISTRATION EXPENSES
($ millions)

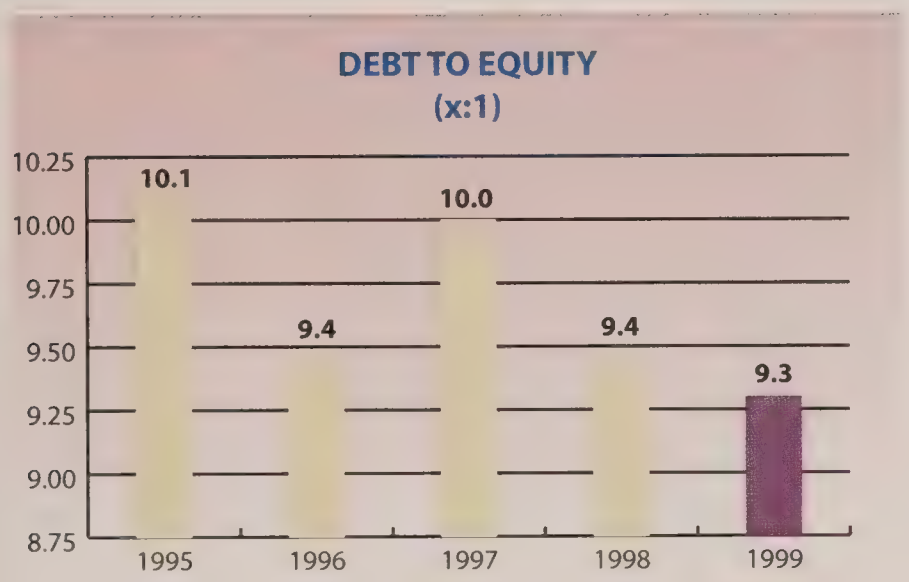


EFFICIENCY RATIO
(%)









KEY FINANCIAL RATIOS

Discussion of financial ratios

Return on equity (ROE)

Return on equity at year-end was 7.5 per cent, compared to 8.3 per cent the prior year. This decrease is due to a significant increase in the provision for credit losses this year and declining one-time gains, which occurred in the prior year.

In order to achieve an appropriate return in relation to the various risks associated with our business activities, FCC manages ROE against a minimum standard, which is set by the Board of Directors. FCC's performance has exceeded this economic standard consistently.

Return on assets (ROA)

Return on assets of 0.72 per cent was below the prior year's result of 0.77 per cent, largely due to a significant increase in the provision for credit losses.

Debt to equity

Debt-to-equity ratio at March 31,1999 was 9.3:1, slightly better than 9.4:1 in 1997-98. This is well below the Corporation's legislated maximum of 12.0:1.

***Outlook 2000:* ROE and ROA are expected to remain low as the provision for credit losses is likely to continue to impact profits. This will also cause the debt-to-equity ratio to rise slightly.**

Risk Management

Inherent in lending are significant risks, such as credit quality, interest rate and liquidity risk. FCC has in place stringent controls to monitor and manage exposure to risks.

CREDIT RISK

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligations to the Corporation. The process of monitoring the level of arrears allows management to assess portfolio loan quality. Total arrears, defined as principal and interest payments past due, were $31.8 million during 1998-99, nominally up from $29.7 million the year prior.

ALLOWANCE FOR CREDIT LOSSES

Allowance for credit losses is management's estimate of probable credit losses on the loans receivable portfolio, as described in note 2(c) to the financial statements. The allowance is comprised of:

- a specific component to value loans identified as impaired at the lower of their recorded investment or their estimated realizable amount; and
- a general component in respect of loans for which impairment has not been specifically identified.

The allowance for credit losses takes into consideration a number of factors including agricultural and general economic conditions, as well as client issues related to Year 2000.

At March 31,1999, the allowance for credit losses was $214.2 million, an increase of $31.5 million or 17.2 per cent from the previous year.

***Outlook 2000:* Ongoing analysis of the loan portfolio as well as agricultural economic trends and conditions will continue to play a vital role in loan portfolio management.**

MARKET RISK MANAGEMENT FRAMEWORK

The Corporation manages its exposure to market risk (interest rate and foreign exchange risk) by utilizing limits developed in consultation with the federal Department of Finance and approved by the Board of Directors.

FCC's Treasury division develops risk management policies and is tactically responsible for implementing the market risk management directives established by the Asset/Liability Management Committee (ALCO).

Treasury's activities and the Corporation's asset/liability positions are reported monthly to ALCO and quarterly to the Board.

TABLE 5 – ARREARS AS A % OF LOANS RECEIVABLE BY ENTERPRISE AS AT MARCH 31

	1999		1998	
	Total Loans Receivable ($ Millions)	**Arrears as a % of Loans Receivable**	**Total Loans Receivable ($ Millions)**	**Arrears as a % of Loans Receivable**
Cash crops	2,533.7	0.7	2,391.2	0.7
Dairy	1,295.6	0.1	1,235.9	0.2
Beef	554.5	0.8	489.3	0.9
Hogs	477.0	0.6	411.4	0.4
Poultry	329.8	0.1	275.3	0.2
Value added	191.1	0.5	124.4	1.2
Special traditional	205.5	0.7	169.8	0.9
Other enterprises	256.2	0.7	221.5	0.8
National	5,843.4	0.5	5,318.8	0.6

LIQUIDITY RISK

The objective of liquidity management is to ensure funds are available to meet cashflow obligations.

As an integral part of liquidity management, FCC measures and forecasts cashflow commitments on a rigorous basis. The Corporation's objective is to maintain sufficient funds and funding capacity to meet customer and business operational requirements.

To manage liquidity risk, FCC maintains a liquid investment portfolio ($348.5 million as at March 31, 1999) and has established a stable and diversified funding base to raise the necessary funds to meet ongoing business requirements.

FUNDING

FCC raises funds through multiple domestic and international money and capital market borrowing programs. Short, medium and long-term sources of funds include:

- Domestic Commercial Paper Program;
- Domestic Medium & Long-Term Note Program (MTN);
- Euro Commercial Paper Programme; and
- Euro Medium-Term Note Programme (EMTN).

SHORT-TERM FUNDING

As at March 31, 1999, outstanding short-term borrowings were $1.1 billion, compared to $938.4 million as at March 31, 1998. The increase is attributable to a larger portion of short-term debt supporting the mortgage and liquidity portfolios in 1998-99.

To diversify short-term funding, FCC continued to expand its borrowing facilities by implementing a $1 billion (U.S. dollar) Euro Commercial Paper Programme (Euro C.P.) in March 1999. This program complements the Corporation's domestic funding sources by providing a diverse international investor base for generating cost-effective funding.

MEDIUM AND LONG-TERM FUNDING

During 1998-99, FCC borrowed a total of $1.5 billion in medium and long-term funds, up from $1.0 billion in 1997-98. In 1998-99, $1.3 billion of MTN's were issued in the domestic bond market using a combination of retail, institutional and structured notes. FCC also increased activity in the EMTN market in 1998-99 with two retail syndicated EMTN issues totaling $250 million.

Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. As a sovereign borrower, FCC's credit ratings are AAA for debt denominated in Canadian dollars and AA+ for foreign currency debt.

ASSET/LIABILITY MANAGEMENT

FCC is exposed to interest rate risk (IRR) as a result of the mismatch or gap between assets, liabilities and off-balance-sheet instruments scheduled to reprice on different dates.

IRR exposures are monitored and managed to ensure that they will not have a material adverse impact on FCC's earnings and capital value.

Since FCC has a policy to not accept foreign exchange risk, all foreign currency borrowings are fully hedged at issuance.

Derivative financial instruments, primarily swaps and options, are used to manage and control interest rate and foreign exchange risk arising from funding, risk management and investment activities.

Credit risk associated with derivative financial instruments is managed using 'dollars-at-risk' methodology. Derivative counterparty positions and credit risk exposures are monitored and regularly reported to ALCO and the Board of Directors.

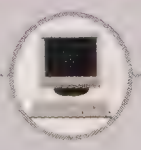
FCC manages IRR exposures with an asset/liability model that simulates changes in net interest income (NII) and Market Value Portfolio Equity (MVPE) for changes in the yield curve. Given FCC's interest rate position at March 31, 1999, an immediate two per cent decrease in interest rates across all maturities would reduce NII by $0.60 million, or 0.4 per cent over the next 12 months. Assuming a two per cent increase in interest rates, MVPE would be lower by approximately $27.6 million over that period. Both NII and MVPE are within limits approved by the Board.

TABLE 8 – MARKET SENSITIVITY

$ Millions	2% Increase	2% Decrease
Net interest income variability	1.7	(0.60)
Economic Value (MVPE) variability	(27.6)	34.6

***Outlook 2000:* Based on expected new lending activity, aggregate new medium and long-term borrowings are targeted at approximately $1.4 billion.**

YEAR 2000



THE YEAR 2000 ISSUE PRESENTS A SIGNIFICANT RISK BECAUSE MANY COMPUTERIZED SYSTEMS RECOGNIZING A TWO-DIGIT DATE CODE MAY NOT RECOGNIZE '00' AS THE YEAR 2000. THIS COULD CAUSE COMPUTER APPLICATIONS TO FAIL OR PRODUCE ERRONEOUS RESULTS POTENTIALLY IMPACTING VIABILITY AND PROFITABILITY.

To address the Corporation's reliable transition to the Year 2000, FCC has initiated an action plan that is directed and guided by a Senior Management steering committee. To further assist management and to ensure the adoption of best practices, FCC has engaged consultants with significant experience in the development and implementation of an enterprise-wide framework and contingency plans.

As of March 31, 1999, all mission-critical systems have been tested and modified to mitigate year 2000 risk. Final contingency plans are under way and will be completed by August 31, 1999, followed by the completion of an operational plan by September 30, 1999. Embedded systems, such as office facilities and equipment, have been addressed with suppliers. FCC has in place a change control process to ensure integrity of efforts to date.

FCC has raised the issue with business partners, alliances, customers and suppliers. Efforts will continue throughout 1999 to assess and mitigate the risks associated with their readiness.

Total cost to date for the Year 2000 project is approximately $4.6 million with a final estimate of $5 million.

FCC believes the efforts taken are reasonable to prepare for the changing of the millennium. However, due to the general uncertainty, resulting in part from Year 2000 Readiness of other parties, no assurance may be given that the year 2000 issue will not have a material or adverse impact on FCC's operations.

Performance Against Plan

Despite downturns in the hog and cash crops sectors due to low commodity prices, the overall agricultural economy was relatively stable in fiscal 1998-99. As a result, FCC still met all major financial goals and exceeded specific goals such as ROE and net income. FCC's total loan portfolio at March 31, 1999 was $5,843.4 million and above plan of $5,747.6 million. Fiscal 1998-99 saw a sixth consecutive year of loan portfolio growth, up $524.6 million or 9.9 per cent. Net income exceeded plan as a result of increased portfolio growth and strong results from the real estate portfolio, offset by higher-than-anticipated provision for credit losses. Increased net income resulted in a higher ROE of 7.5 per cent compared to a target of 7.2 per cent. Administration expenses were on plan at $90.1 million.

In 1997-98, the Corporation decided to withdraw from the NISA program. As of March 31,1999, FCC no longer held any NISA investments. The 1998-99 plan was amended to reflect this decision.

Outlook 1999-2000

Canadian producers will continue to be challenged by the cyclical nature of the agricultural economy, increased competition and the need to hedge risk through diversification. As a result, the Corporation has adopted a cautious stance for the coming year. An increase in the provision for credit losses will result in a planned net income of $34.7 million. An anticipated increase in agribusiness lending will offset an expected decrease in primary production lending due to difficulties in some sectors of the agricultural economy. This will result in an overall decline of loan portfolio growth with forecasted approvals of $1.4 billion in 1999-2000. Reflecting management's strategy to improve efficiency and control costs, the administration expense budget for the coming year is set at $90.0 million, similar to the Corporation's expenditures in fiscal 1998-99.

In response to those specific sectors experiencing difficulties, such as hogs and cash crops, FCC continues to monitor and assess the situation and plan accordingly. The Corporation is dedicated to providing optimal assistance to clients.

TABLE 7 – KEY FINANCIAL DATA

$ Millions	1999 Plan*	1999 Actual	2000 Plan
Net Income	40.9	**42.6**	34.7
Net Interest Income	139.6	**146.3**	151.9
Net Interest Margin	2.29	**2.47**	2.39
Loans Receivable	5,747.6	**5,843.4**	6,103.8
Arrears	40.9	**31.8**	70.0
Administration expenses	90.5	**90.1**	90.0
Efficiency ratio (%)	60.6	**57.7**	56.7
Return on equity (%)	7.2	**7.5**	5.7
Return on assets (%)	0.67	**0.72**	0.55
Debt to equity	9.7:1	**9.3:1**	9.7:1

*Revised to reflect the impact of FCC's exit from NISA

Forward looking statements appearing in this Management Discussion and Analysis are subject to risks and uncertainties. Actual results may differ materially due to a variety of factors.

FCC SCA
Farm Credit Corporation Société du crédit agricole
Canada

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

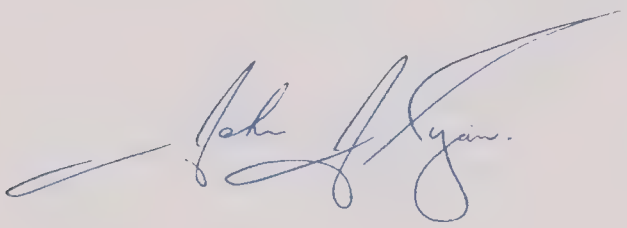
The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

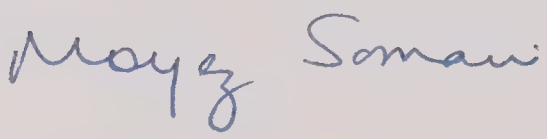
In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, a committee which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis, and the auditors have full and free access to the Audit Committee.

The Corporation's independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.



John J. Ryan
President and
Chief Executive Officer



Moyez Somani
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 14, 1999

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Corporation as at March 31, 1999 and the statements of operations and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an audit opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1999, and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Corporation Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 14, 1999

Balance Sheet

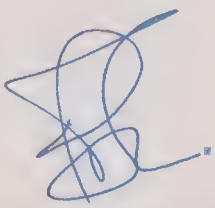


AS AT MARCH 31

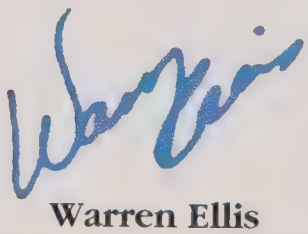
	1999	1998
		(thousands of dollars)
ASSETS		
Cash and short-term investments (Note 3)	$ 245,797	$ 237,605
Accounts receivable and other accrued assets	31,760	44,158
Long-term investments (Note 4)	102,713	149,613
Loans receivable (Notes 5 and 6)	5,629,202	5,136,138
Real estate acquired in settlement of loans (Note 7)	103,395	123,481
Equipment and leasehold improvements	12,194	15,208
	$ 6,125,061	$ 5,706,203
LIABILITIES		
Accounts payable and accrued liabilities	$ 21,699	$ 19,748
Accrued interest on borrowings	122,522	105,181
	144,221	124,929
Borrowings (Note 8)		
Short-term debt	1,120,318	938,387
Long-term debt	4,237,171	3,964,766
	5,357,489	4,903,153
Other liabilities and deferred fees (Note 9)	31,505	128,834
	$ 5,533,215	$ 5,156,916
EQUITY		
Capital (Note 1)	$ 507,725	$ 507,725
Retained earnings	84,121	41,562
	$ 591,846	$ 549,287
	$ 6,125,061	$ 5,706,203

The accompanying notes are an integral part of the financial statements.

Approved:



Donald W. Black
Chair, Board of Directors



Warren Ellis
Chair, Audit Committee

Statement of Operations and Retained Earnings



FOR THE YEARS ENDED MARCH 31

	1999	1998
	(thousands of dollars)	
INTEREST INCOME		
Loans receivable	$ 442,331	$ 408,237
Investment income	25,845	22,762
	468,176	430,999
Interest expense	321,923	296,857
Net interest income	146,253	134,142
Provision for credit losses (Note 6)	33,220	18,748
Net interest income after provision for credit losses	113,033	115,394
LEASE AND REAL ESTATE INCOME		
Lease and other revenue	23,013	22,808
Operating expenses	2,452	2,853
Interest expense	5,852	6,948
Net lease and real estate income	14,709	13,007
OTHER INCOME	7,176	8,769
INCOME BEFORE OTHER EXPENSES	134,918	137,170
OTHER EXPENSES		
Administration expenses	90,130	89,383
Income taxes (Note 10)	2,229	6,225
Other expenses	92,359	95,608
NET INCOME	42,559	41,562
Retained earnings/(deficit), beginning of year	41,562	(660,608)
Reallocation of contributed capital to eliminate deficit	–	660,608
RETAINED EARNINGS, END OF YEAR	$ 84,121	$ 41,562

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Financial Position



FOR THE YEARS ENDED MARCH 31

	1999	1998
	(thousands of dollars)	
OPERATING ACTIVITIES		
Net income	$ 42,559	$ 41,562
Items not involving cash		
Provision for credit losses	33,220	18,748
Change in accrued interest receivable	(14,104)	(24,648)
Change in accrued interest payable	18,938	33,015
Other	26,972	11,356
Cash provided by operating activities	107,585	80,033
INVESTING ACTIVITIES		
Long-term investments	44,948	(71,894)
Loans receivable disbursed	(1,509,900)	(1,504,200)
Loans receivable repaid	995,459	870,697
Change in real estate held	20,086	16,148
Other	(1,523)	15,010
Cash used in investing activities	(450,930)	(674,239)
FINANCING ACTIVITIES		
Long-term debt repaid to Canada	(436,250)	(503,963)
Long-term debt from capital markets	1,520,504	1,014,311
Long-term debt repaid to capital markets	(821,058)	(243,744)
Increase in capital	–	50,000
Change in short-term debt	182,095	197,991
Change in NISA investments held	(93,754)	76,202
Cash provided by financing activities	351,537	590,797
Increase (decrease) in cash and short-term investments	8,192	(3,409)
Cash and short-term investments, beginning of year	237,605	241,014
Cash and short-term investments, end of year	$ 245,797	$ 237,605

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements



1. THE CORPORATION

a) Authority and objectives

Farm Credit Corporation (the Corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown Corporation named in Part I of Schedule III to the *Financial Administration Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The *Act* continues the Farm Credit Corporation with its Corporate Office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role is to enhance rural Canada by providing specialized and personalized financial services to family farms and those businesses in rural Canada that are related to farming. Additionally, the Corporation delivers specific programs for the Government of Canada on a cost-recovery basis.

b) Capital

Capital of the Corporation consists of capital contributions made by the Government of Canada net of a March 31,1998 reallocation to eliminate the accumulated deficit.

As of March 31, 1999, capital payments received from the Government of Canada amounted to $1,168 million (1998 - $1,168 million). The statutory limit for that same period was $1,175 million (1998 - $1,175 million).

c) Limits on borrowing

The *Farm Credit Corporation Act* restricts the total direct and contingent liabilities of the Corporation to 12 times its equity. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 1999, the Corporation's total liabilities were 9.3 times the equity of $591.9 million (1998 - 9.4 times the equity of $549.3 million).

2. SIGNIFICANT ACCOUNTING POLICIES

a) Investments

Investments comprise the balance sheet categories of short-term investments and long-term investments. Interest income, amortization of premiums and discounts and write-downs to market value on investments are reported as investment income. Except as noted below for long-term investments acquired to manage funding opportunities in advance of cash requirements, gains and losses on disposal of investments are also reported in investment income.

Short-term investments are acquired primarily for the purposes of liquidity and are intended to be held for less than one year. Short-term investments are carried at cost. However, where the market value has declined significantly, short-term investments are written down to market value.

Long-term investments are securities with terms to original maturity in excess of one year. These investments are acquired primarily for the purposes of asset/liability management and for the management of funding opportunities in advance of cash requirements.

Long-term investments which were acquired for asset/liability management are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. Gains and losses on the disposal of these investments are included in current year income as a component of investment income.

Long-term investments which were acquired for the management of funding opportunities in advance of cash requirements act as hedges against changes in future borrowing rates. These investments are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. To estimate the true cost of funding, gains and losses on the disposal of these investments are amortized on a straight-line basis and applied to interest expense over the life of the related funding instruments.

b) Loans receivable

Loans receivable is stated net of the allowance for credit losses.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is well secured and in the process of collection. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the provision for credit losses.

Interest income is recorded on the accrual basis until such time as a loan is specifically classified as impaired. All payments on the loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans.

c) Allowance for credit losses

The allowance for credit losses represents management's best estimate of credit losses on its loans receivable in the light of current conditions. It has a specific and a general component.

Based on a loan-by-loan review, the specific component is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general component, which is prudential in nature, is established in respect of loans for which impairment has not been specifically identified. In establishing the general component of the allowance, management models historic portfolio migration trends and loss percentages and applies them to the loans receivable balances at year end categorized into risk pools. As a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, economic trends, federal and provincial government programs, commodity prices and climatic conditions. Evidence of impairment can exist as early as the time of disbursement.

The allowance is increased by provisions for credit losses and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

d) Real estate acquired in settlement of loans

Real estate, whether held for the production of income through leasing or held for sale, is initially recorded at the lower of the recorded investment in the foreclosed loan and the fair value of the underlying security at the time of acquisition. The fair value of the security is the amount which could be realized in an arm's-length disposition considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Subsequent to acquisition, real estate leased for the production of income is carried at the value recorded on acquisition and is not written down for declines in the estimated fair value unless they are significant and permanent.

The carrying value of real estate held for sale is adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition.

Lease and other revenues from real estate are recorded when earned. Gains and losses arising from the disposal of real estate are included as a component of lease and other revenues.

e) Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 years
Leasehold improvements	Straight-line	Lease term

f) Capital leases

Leases that transfer substantially all of the benefits and inherent risks of ownership of the leased property to the Corporation are capitalized by recording the present value of the lease payments as assets and liabilities. The leased property is then amortized to income (using the straight-line method) over its estimated useful life which in most cases will correspond to the lease term. Lease payments are recorded partly against the amount of the obligation and partly to interest expense.

g) Translation of foreign currencies

Loans receivable/borrowings and interest receivable/payable in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Interest income and expense denominated in foreign currencies are translated into Canadian dollars at the average month-end exchange rates prevailing throughout the year. Exchange gains or losses arising from the translation of foreign denominated debt and interest expense are reported net of the exchange gains and losses on the related currency exchange agreements and are included as a component of interest expense.

h) Long-term debt

The difference between the ultimate amounts payable (at the initial exchange rates if the long-term debt is denominated in foreign currency) and the cash proceeds of debt issues is amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Interest settlement amounts for debt with bond index-linked or equity-linked interest are estimated using the related index level as at the balance sheet date and included in accrued interest. Changes in the estimated settlement amounts during the year are included as a component of interest expense.

i) Derivative financial instruments

In order to manage its exposure to currency and interest rate risks, the Corporation uses various types of derivative financial instruments such as currency, interest rate, bond index and equity-linked swaps, forward rate agreements and interest rate options. These instruments include contracts designated as hedges as well as asset/liability contracts which alter the Corporation's overall interest rate profile. The Corporation does not use derivative financial instruments for speculative purposes.

Currency exchange agreements

Amounts receivable or payable under currency exchange agreements are disclosed separately from the related foreign currency denominated loans receivable or debt and are translated into Canadian dollars at rates prevailing on the balance sheet date. The translated amounts are disclosed net of any amounts payable or receivable in Canadian dollars under these contracts. The net balance is reported as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Currency exchange gains and losses arising from currency exchange agreements are included in income as a component of interest expense. The cost of these agreements is amortized on a straight-line basis over the life of the contract and the amortization is reflected in interest income or expense. The unamortized balance is included as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Interest rate agreements

Periodic payments arising under swap and forward contracts are accounted for on an accrual basis with the accrued interest receivable and payable recorded as a component of accounts receivable and other accrued assets and accounts payable and accrued liabilities respectively. Premiums on the option contracts are amortized on a straight-line basis over the lives of the underlying instruments and reported as an adjustment to interest expense. Gains realized upon exercising an interest rate option are deferred and amortized to interest expense over the life of the hedged position.

j) Pension and other post-retirement employee benefits

Employees participate in the *Public Service Superannuation Act* pension plan administered by the Government of Canada. The Corporation matches employee contributions for current or prior service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

Upon retirement, employees under the age of 65 are entitled to basic life insurance coverage. The Corporation recognizes the premium costs as incurred.

k) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees or as settlements are reasonably determinable.

l) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred income tax benefits which have not been recorded and will only be recognized when realized.

3. CASH AND SHORT-TERM INVESTMENTS

	Effective interest rate (%)	1999	1998
		(thousands of dollars)	
Cash		$ 2,606	$ 19,733
Short-term investments	4.80 - 5.10	241,562	216,572
Accrued interest		1,629	1,300
		$ 245,797	$ 237,605
Short-term investments consist of instruments with maturities of less than one year, issued by:			
The Government of Canada and its agencies and Crowns		$ 54,697	$ 80,051
Other		186,865	136,521
		$ 241,562	$ 216,572

Other investments consist of short-term instruments issued by the governments of the provinces of Canada, or short-term instruments issued by institutions with credit ratings of R-1L or higher. As at March 31, 1999, the largest total investment in any one institution was $37.2 million (1998 - $28.7 million) and the Corporation held investments in nine separate institutions (1998 - eight institutions).

4. LONG-TERM INVESTMENTS

	Stated interest rate (%)	1999	1998
		(thousands of dollars)	
Amounts due within:			
1 year		$ –	$ 50,000
1 – 5 years	5.50 – 7.50	94,215	80,000
over 5 years		–	15,000
		94,215	145,000
Unamortized premium and discount		7,029	3,357
Accrued interest		1,469	1,256
		$ 102,713	$ 149,613

Long-term investments consist entirely of Government of Canada bonds.

5. LOANS RECEIVABLE

	Stated interest rate (%)	1999	1998
		(thousands of dollars)	
Principal amounts due, secured by:			
– mortgages	5.00 – 14.63	$ 4,967,502	$ 4,553,756
– chattels	5.00 – 12.40	629,519	579,044
– notes	5.00 – 12.50	29,424	82,341
		5,626,445	5,215,141
Accrued interest and fees, net of payments held		86,771	71,364
		5,713,216	5,286,505
Recorded investment in impaired loans, secured by:			
– mortgages		119,743	25,187
– chattels		9,279	5,249
– notes		1,128	1,897
		130,150	32,333
Less: Allowance for credit losses (Note 6)		(214,164)	(182,700)
		$ 5,629,202	$ 5,136,138
Principal amounts (excluding impaired loans) due within:			
1 year		$ 1,234,532	$ 1,490,243
1 – 5 years		3,814,871	3,619,991
over 5 years		577,042	104,907
		$ 5,626,445	$ 5,215,141

Management estimates that annually, over the next three years, between seven and eight per cent (1998 – seven and eight per cent) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 1999, $2.5 million (1998 – $2.4 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

6. ALLOWANCE FOR CREDIT LOSSES

		1999		1998
		(thousands of dollars)		
Balance, beginning of year	$	**182,700**	$	165,400
Write-offs, net of recoveries		**(1,756)**		(1,448)
Provision for credit losses		**33,220**		18,748
Balance, end of year	$	**214,164**	$	182,700
Specific allowance	$	**42,164**	$	8,200
General allowance		**172,000**		174,500
Balance, end of year	$	**214,164**	$	182,700

As at March 31, 1999, the total recorded investment in loans receivable against which a specific allowance has been identified was $130.2 million (1998 - $32.3 million). The general allowance was established against the remaining $5,713.2 million (1998 - $5,286.5 million) investment in loans receivable.

During the year, the Corporation enhanced its methodology for estimating the allowance for credit losses. One of the impacts of this change was to increase the number of loans classified as impaired and consequently, the specific allowance.

7. REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS

		1999		1998
		(thousands of dollars)		
Balance, beginning of year	$	**123,481**	$	139,629
Acquisitions		**622**		2,767
Disposals		**(20,708)**		(18,915)
Balance, end of year	$	**103,395**	$	123,481
Real estate under long-term lease, maturing:				
within 1 year	$	**59,074**	$	482
from 1 - 2 years		**37,530**		74,292
from 2 - 3 years		**1,882**		42,852
from 3 - 4 years		**792**		2,234
from 4 - 5 years		**–**		699
		99,278		120,559
Real estate held for sale		**4,117**		2,922
	$	**103,395**	$	123,481

Real estate represents property acquired in the process of administering loans receivable. Real estate under long-term lease may be subject to renewal at the expiry of the original lease term. Leases re-price annually.

		1999		1998
		(thousands of dollars)		
Future expected lease receipts, using current lease rates, due within:				
1 year	$	**9,824**	$	11,972
1 - 5 years		**7,533**		10,883
	$	**17,357**	$	22,855

8. BORROWINGS

The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the Corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

a) Short-term debt

Short-term debt consists of promissory notes payable within one year totaling $1,120.3 million (1998 - $938.4 million). The effective interest rate on these notes ranges from 4.71% to 5.20% (1998 - 4.00% to 4.76%). All amounts are payable in Canadian dollars.

b) Long–term debt

	Stated interest rate (%)	1999	1998
		(thousands of dollars)	
Loans from Canada, secured by notes	6.69 - 9.91	$ **1,040,798**	$ 1,477,048
Loans from capital markets, secured by notes payable in:			
Canadian dollars	3.75 - 9.00	**2,959,869**	2,162,109
U.S. dollars ($100,000,000)	-	**–**	141,920
New Zealand dollars ($100,000,000)	8.00	**80,504**	77,689
Loans from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:			
the Hong Kong Exchange Index	-	**12,000**	12,000
the Euro Top 100 Index	-	**56,000**	56,000
the S&P 500 Composite Stock Price Index	-	**38,000**	38,000
the DS Barra Government Bond Index	-	**50,000**	-
		$ **4,237,171**	$ 3,964,766

Loans with index-linked interest payments do not provide periodic interest payments but, upon settlement, provide the purchaser with a single payment based on changes in the underlying equity or bond index. The Corporation has entered into swap agreements which offset all index-linked interest payments in exchange for periodic payments calculated at an agreed upon interest rate.

Loan payments denominated in foreign currencies have been fully swapped into Canadian dollars.

	1999	1998
	(thousands of dollars)	
Amounts due:		
within 1 year	$ **921,297**	$ 1,123,484
from 1 - 2 years	**1,019,582**	708,567
from 2 - 3 years	**594,673**	785,737
from 3 - 4 years	**652,254**	367,813
from 4 - 5 years	**479,511**	578,279
over 5 years	**569,854**	400,886
	$ **4,237,171**	$ 3,964,766

Included in long-term debt is $391.2 million (1998 - $494.0 million) of loans extendable beyond their original due dates at the Corporation's option.

9. OTHER LIABILITIES AND DEFERRED FEES

	1999	1998
	(thousands of dollars)	
Other liabilities and deferred fees consist of:		
Agri-Land investment fund	$ 1,960	$ 2,707
Downpayments on real estate sales	1,281	492
Provision for employee termination benefits	6,010	4,933
Obligation under capital lease (Note 11)	827	744
Net currency swap payable	14,757	17,456
NISA investments held	–	93,754
Deferred loan fees	6,670	8,748
	$ 31,505	$ 128,834

The Corporation may, through its equity-building lease program, lease real estate acquired in settlement of loans back to the former owner (the lessee). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Agri-Land investment fund. Funds held in the Agri-Land investment fund earn interest at 4.00% (1998 – 3.00%). At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

10. INCOME TAXES

Timing differences of approximately $232.0 million are available to the Corporation as at March 31, 1999 (1998 – $35.0 million). These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the provision for credit losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $277.0 million (1998 – $492.0 million) and expires on the dates indicated:

	(thousands of dollars)
March 31, 2001	$ 111,000
2003	70,000
2005	96,000
	$ 277,000

Income taxes payable by the Corporation represent capital taxes under Part I.3 of the *Income Tax Act*, applicable to corporations with taxable capital in excess of $10 million and may be reduced by current or future Part I surtaxes payable. With the withdrawal from the NISA program effective in the current year, the Corporation is no longer subject to Part VI tax.

11. COMMITMENTS AND CONTINGENT LIABILITIES

a) Long-term commitments for leases

Future minimum payments by fiscal year on operating leases for premises and automobiles and on the capital lease for computer hardware, with initial non-cancellable lease terms in excess of one year, are due as follows:

	Capital leases	Operating leases
	(thousands of dollars)	
within 1 year	$ 399	$ 6,399
from 1 - 2 years	377	5,291
from 2 - 3 years	166	3,980
from 3 - 4 years	-	1,871
from 4 - 5 years	-	708
over 5 years	-	1,471
Total future minimum lease payments	$ 942	$ 19,720
Less: amount representing executory costs and imputed interest at 5.00%	115	
Balance of obligation under capital lease	827	
Less: current portion	327	
Long-term obligation under capital lease	$ 500	

b) Other commitments and contingent liabilities

In the normal course of its business, the Corporation enters into various commitments and contracts. As of March 31, 1999, the Corporation has issued guarantees and letters of credit on behalf of its clients which in total do not exceed $1.1 million (1998 - $0.7 million). In the event of a call upon the guarantees disclosed above, the Corporation has recourse against its clients.

As at March 31, 1999, loans to farmers and agribusiness approved but undisbursed amounted to $154.4 million (1998 - $123.0 million). These loans were approved at an average interest rate of 7.68% (1998 - 7.48%) and do not form part of the loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by May 31, 1999.

12. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize a date using "00" as the year 1900 or some other date, rather than the year 2000. This could result in errors when information using Year 2000 dates is processed. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation's ability to conduct normal business operations.

Due to the inherent uncertainty in the Year 2000 issue, it is not possible to be certain that all aspects of this issue, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved and that the problems will not adversely affect the Corporation. In addition, the failure of the Corporation's borrowers to fully address the Year 2000 issue may result in increases in impaired loans and provisions for credit losses in future years.

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, for investment management purposes, and to reduce funding costs. Interest rate and currency swaps are used to manage interest rate risk and to offset foreign currency risk on foreign currency borrowings. Interest rate options are purchased to hedge options embedded in the Corporation's loan products as well as to reduce risk arising from loan rate guarantees. Interest rate options are sometimes written as part of funding transactions and are intended to reduce the Corporation's borrowing costs.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligation to the Corporation. Replacement cost represents the mark to market value of outstanding derivative contracts. A positive replacement cost indicates the Corporation's exposure to counterparty credit risk. The Corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality (Aa3 from Moody's or AA- from S&P or better). Additionally, International Swaps and Derivative Association (ISDA) documents have downgrade and collateral provisions to reduce counterparty credit risk. As a result, the Corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 1999 was $493.4 million (1998 - $596.0 million) and the largest replacement cost of contracts with any institution as at March 31, 1999 was $3.2 million (1998 - $3.2 million).

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of derivative financial instruments outstanding as at March 31, 1999 were as follows:

1999 - Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
		(thousands of dollars)				
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	$ 111,200	$ 284,000	$ -	$ 395,200	$ (11,405)
Fixed	Floating	236,200	212,000	857	449,057	3,505
Fixed	Fixed	45,000	40,000	-	85,000	3,294
Equity-linked	Floating	-	49,000	19,000	68,000	592
Equity-linked	Fixed	-	38,000	-	38,000	(3,247)
Bond index-linked	Floating	-	50,000	-	50,000	(321)
Forward rate agreements		150,000	-	-	150,000	(5)
Purchased options		170,000	10,000	-	180,000	528
Written options		-	-	-	-	-
		712,400	683,000	19,857	1,415,257	(7,059)
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	-	5,000	-	5,000	(161)
CDN fixed	USD float	-	2,250	-	2,250	(13)
USD fixed	CDN fixed	-	-	-	-	-
NZD fixed	CDN fixed	95,000	-	-	95,000	(10,529)
		95,000	7,250	-	102,250	(10,703)
Total		$ 807,400	$ 690,250	$ 19,857	$ 1,517,507	$ (17,762)

1998 – Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
			(thousands of dollars)			
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	$ 100,000	$ 55,000	$ –	$ 155,000	$ (808)
Fixed	Floating	240,000	402,000	857	642,857	6,699
Fixed	Fixed	10,000	70,000	–	80,000	1,040
Equity-linked	Floating	–	12,000	56,000	68,000	(3,918)
Equity-linked	Fixed	–	38,000	–	38,000	(2,538)
Bond index-linked	Floating	–	–	–	–	–
Forward rate agreements		–	–	–	–	–
Purchased options		245,000	10,000	–	255,000	351
Written options		169,000	–	–	169,000	(9,653)
		764,000	587,000	56,857	1,407,857	(8,827)
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	–	5,000	–	5,000	(110)
CDN fixed	USD float	–	2,250	–	2,250	(21)
USD fixed	CDN fixed	137,750	–	–	137,750	2,963
NZD fixed	CDN fixed	–	95,000	–	95,000	(15,521)
		137,750	102,250	–	240,000	(12,689)
Total		$ 901,750	$ 689,250	$ 56,857	$ 1,647,857	$ (21,516)

Included in derivative financial instruments is $391.2 million (1998 – $494.0 million) of interest rate swap and option contracts extendable beyond their original due dates.

14. INTEREST RATE RISK

Changes in market interest rates have a direct impact on the contractually determined cash flows of floating rate financial instruments and on the fair value of fixed rate financial instruments.

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the Corporation's financial instruments by the earlier of their contractual re-pricing dates or their maturity dates. Instruments repayable by amortizing payments of principal and interest are shown as maturing over the term of the contract.

Floating rate loans receivable are linked to the bank prime rate and re-price with changes in the rate.

The calculated yield for long-term debt in foreign currencies is disclosed net of currency and interest rate swaps.

1999 – Remaining term to re-pricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
		(thousands of dollars)		
Short-term investments	$ 243,191	–	–	$ 243,191
Average yield	4.99%	–	–	4.99%
Long-term investments	$ –	102,713	–	$ 102,713
Average yield	–	4.87%	–	4.87%
Loans receivable (1)				
– Fixed rate	$ 1,136,760	3,389,891	561,309	$ 5,087,960
Average yield	7.98%	7.89%	8.31%	7.96%
– Floating rate	$ 116,811	483,813	24,632	$ 625,256
Average yield	7.84%	7.82%	7.92%	7.82%
Short-term debt	$ 1,127,753	–	–	$ 1,127,753
Average yield	4.96%	–	–	4.96%
Long-term debt	$ 946,568	2,820,430	585,260	$ 4,352,258
Average yield	6.10%	6.01%	6.44%	6.09%

1998 – Remaining term to re-pricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
		(thousands of dollars)		
Short-term investments	$ 217,872	-	-	$ 217,872
Average yield	4.65%	-	-	4.65%
Long-term investments	$ 50,486	81,426	17,701	$ 149,613
Average yield	5.02%	4.97%	6.06%	5.10%
Loans receivable (1)				
- Fixed rate	$ 1,420,864	3,270,383	99,236	$ 4,790,483
Average yield	7.64%	8.19%	8.55%	8.04%
- Floating rate	$ 89,770	399,145	7,107	$ 496,022
Average yield	7.45%	7.56%	7.66%	7.54%
Short-term debt	$ 945,658	-	-	$ 945,658
Average yield	4.43%	-	-	4.43%
Long-term debt	$ 1,151,699	2,621,835	289,142	$ 4,062,676
Average yield	5.90%	6.72%	7.58%	6.55%

Note: (1) Loans receivable excludes impaired loans.

15. FAIR VALUES

The following table summarizes the estimated fair value of the Corporation's financial instruments.

	1999		1998	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	(thousands of dollars)			
Assets				
Cash and short-term investments	$ 245,797	$ 245,797	$ 237,605	$ 237,605
Accounts receivable and other accrued assets	31,760	31,760	44,158	44,158
Long-term investments	102,713	102,397	149,613	150,420
Loans receivable	5,629,202	5,721,720	5,136,138	5,163,582
Liabilities				
Accounts payable and accrued liabilities	$ 21,699	$ 21,699	$ 19,748	$ 19,748
Accrued interest on borrowings	122,522	122,522	105,181	105,181
Short-term debt	1,120,318	1,120,667	938,387	937,580
Long-term debt	4,237,171	4,375,183	3,964,766	4,112,278

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and short-term investments, accounts receivable and other accrued assets, accounts payable and accrued liabilities, and accrued interest on borrowings.

Fair value for long-term investments is determined by reference to quoted market prices.

Quoted market values are not available for a significant number of the Corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

Estimated fair value for short-term debt and long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year end for equivalent terms to maturity.

The estimated fair value for loans receivable is determined by discounting expected future cash flows (after adjustment for amounts which may be collected in advance of the contractual due date) at market interest rates. The allowance for credit losses is valued at its balance sheet carrying value.

Note: The fair value (replacement cost) of derivative financial instruments is disclosed in Note 13.

16. SEGMENTED INFORMATION

The Corporation is engaged in two distinct business segments: agricultural lending and real estate leasing. These segments operate exclusively in Canada. Details regarding the results of operations for these segments are readily available in the Corporation's financial statements.

17. GOVERNMENT PROGRAMS

Commodity-based loans

Net loans receivable at March 31, 1999, includes $1.5 million (1998 - $18.3 million) of loans issued under the Commodity-Based Loans (CBL) program. In fiscal 1999, the Corporation billed $3.1 million (1998 - $6.4 million) to Agriculture and Agri-Food Canada as compensation for the early retirement of CBLs and concessions made under the program. During the same period, the Corporation received $3.1 million (1998 - $6.4 million). Concessions relate to preferential interest rates provided to borrowers under the program and cease when the related loans are retired. The program has not been available for new lending since 1989.

Farm Debt Review Act

Under arrangements made pursuant to the *Farm Debt Review Act*, the Minister of Agriculture and Agri-Food is authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments.

Since the inception of the Farm Debt Review process, the Corporation has provided $279.0 million in concessions and billed $279.0 million to the Government of Canada. As of March 31, 1999, all Farm Debt Review Board concessions have been billed and received.

Government funding for new concessions under the *Farm Debt Review Act* ceased effective March 31, 1994.

18. COMPARATIVE FIGURES

Certain 1998 comparative figures have been reclassified to conform with the presentation adopted in 1999.

CORPORATE Governance

A REPORT FROM THE BOARD OF DIRECTORS

GUIDELINES FOR EFFECTIVE CORPORATE GOVERNANCE ARE SET OUT IN *CORPORATE GOVERNANCE IN CROWN CORPORATIONS AND OTHER PUBLIC ENTERPRISES*. THE GOVERNANCE GUIDELINES REQUIRE EACH CROWN CORPORATION TO ANNUALLY DISCLOSE ITS APPROACH TO CORPORATE GOVERNANCE AND ADDRESS SUCH MATTERS AS THE CONSTITUTION OF AND FUNCTIONS TO BE PERFORMED BY THE BOARD OF DIRECTORS OF CROWN CORPORATIONS.



BOARD STEWARDSHIP

The Board of Directors is responsible for overseeing FCC's management and business in the best interests of the Corporation and the long-term interests of the Government of Canada as required by and set down in the *Farm Credit Corporation Act* and the *Financial Administration Act*.

The Board discharges its responsibilities directly and through committees, which include Audit, Corporate, Governance and Human Resources. Formal recommendations are presented for consideration to the full Board of Directors.

The Board of Directors meets regularly to review strategic direction, business operations, financial results, and receive committee reports.

The Board explicitly assumes responsibility for the stewardship of the Corporation through:

- *establishment and approval of strategic direction and the Corporate Plan, including capital and operating budgets;*
- *assurance that the principal business risks have been identified and that appropriate systems to manage these risks are in place;*
- *approval of the management succession plan; and*
- *assurance that information systems and practices meet the Board's needs for confidence in the integrity of the information provided.*

As part of the strategic planning process, the Board examines FCC's public policy and strategic objectives and periodically reviews the legislated mandate to ensure its continuing relevance.

The Board seeks to ensure that FCC communicates effectively with the Crown, other stakeholders and the public. In support of FCC's effective participation in agricultural communities across Canada, the Board has provided leadership in terms of FCC's community relations policy.

BOARD INDEPENDENCE

The Board of Directors is composed of 12 members including a Chair, a Chief Executive Officer and 10 Directors. Eleven of the Directors, including the Chair, are independent of management and free from any interest in any business or other relationship that could reasonably interfere with the Directors' ability to act in the best interests of FCC.

The President and Chief Executive Officer is appointed on a full-time basis by the Governor in Council and is also a member of the Board of Directors. John J. Ryan was appointed to the position of Chief Executive Officer on September 1, 1997.

RENEWAL OF THE BOARD

The Board of Directors has approved a Chair Profile and a Director Profile that sets out the desired qualifications and experience as well as the duties and responsibilities of the Chair and Directors individually. These profiles define the expectations of the Chair and Directors in terms of experience, contribution and performance and establish a frame of reference for the selection of candidates for renewal and succession of the Chair and members of the Board of Directors.

The Governor in Council appoints the Chair and the President of the Corporation. The Minister of Agriculture and Agri-Food Canada appoints all other Directors with approval of the Governor in Council. Directors are appointed for terms of up to three years and are eligible for reappointment.

LOANS TO DIRECTORS

Agriculture and agribusiness knowledge is one of the key attributes for a Board member to possess. The Board recognizes that Directors who are drawn from the agricultural sector may, from time to time, have dealings with the Corporation with respect to the financial services it offers.



1 – EDWARD CLARK
2 – MARILYN MARIE SCOTT
3 – GERMAIN SIMARD
4 – JOHN J. RYAN
5 – MARIE-ANDRÉE MALLETTE
6 – LOIS HOLE
7 – PETER RAMPTON
8 – RASHPAL DHILLON
9 – ELEANOR M. HART
10 – WARREN ELLIS
11 – ROSEMARY DAVIS
12 – DONALD W. BLACK

...continued on page 58

It is therefore desirable for the Board to have a clearly enunciated policy governing the matter of loans to Directors. The policy established by the Board, along with the *Financial Administration Act* and the *Conflict of Interest Code for Public Office Holders,* imposes requirements on the Directors regarding conflicts of interest.

Directors must disclose any interest in, and refrain from voting in respect of, any material contract with the Corporation. The policy further states the principles that any loan involving a director shall be handled in an independent and arms-length fashion and that no advantage or preference shall be shown in relation to any such loan. The Board has no involvement in the approval of any loans including their terms, conditions and interest rates.

CONTINUING EDUCATION

Each member of the Board of Directors receives an introductory orientation supplemented by continuing development, including attendance at education seminars sponsored by the Conference Board of Canada and periodic board in-service governance sessions with experts on governance. This fiscal year, seven Directors attended seminars, bringing back information and best practices to the Corporate Governance Committee for discussion and implementation.

WORKING WITH MANAGEMENT

The Board has established an effective working relationship with management including a clear accountability and evaluation framework for the Chief Executive Officer. The Board is cognizant of the difference between the role of the Board and the responsibilities of management and seeks to maintain a clear focus and perspective on these roles.

The Board of Directors expects FCC management to implement the Corporation's strategy and business plan and to keep the Board apprised of its activities. For the year ended March 31, 1999, the Board of Directors believes that management provided appropriate and sufficient information in a timely fashion, which permitted the Board to properly oversee the business and affairs of FCC.

In matters of corporate governance, the board has shown strong leadership in setting performance standards for the positions of Chair and Director. In 1998-99, FCC established and implemented an evaluation process to assess the effectiveness of the board itself. This initiative places FCC among Canada's leading corporations in the area of corporate governance.

AUDIT COMMITTEE

Chair: Warren Ellis
Members: Donald W. Black
Rosemary Davis
Rashpal Dhillon
Marie-Andrée Mallette
Peter Rampton

Composed of six non-management Directors, including the Board Chair, the Audit Committee's primary functions are to: assist in fulfilling the Board's responsibilities to oversee FCC's financial performance; to monitor activities by reviewing the Corporation's financial and operational reporting systems, internal control systems and audit processes; and make recommendations accordingly. In discharge of its responsibilities, the Committee may, at its discretion, meet independently with representatives of the Office of the Auditor General, the auditors for FCC.

The Audit Committee carried out its mandate in four key areas:

- *review and approval of the 1997-98 Financial Statements and Annual Report and the quarterly financial results for the fiscal year 1998-99.*
- *review and approval of the 1998-99 annual corporate audit plan, all final audit reports issued, as well as the status of actions taken by management to address areas requiring improvements;*
- *review and approval of Board and CEO expenses for fiscal 1998-99; and*
- *the Committee received and reviewed the report on the results of the Annual Audit and Management Letter from the Auditor General of Canada for fiscal 1997-98, as well as the 1998-99 Annual Audit plan.*

The Audit Committee met five times during the fiscal year ended March 31, 1999.

BOARD Committees

HUMAN RESOURCES COMMITTEE

Chair: Eleanor Hart
Members: Donald W. Black
Rashpal Dhillon
Lois Hole
Peter Rampton
John J. Ryan
Germain Simard

The Human Resources Committee is composed of seven Directors. Six are independent of management, including the Chair of the Board. The Committee's primary responsibility is to review all major human resources policy matters and to make recommendations to the Board of Directors.

The Committee reviews and makes recommendations on management development, performance evaluation and succession planning with respect to the Chief Executive Officer. In addition, it oversees the management development plan, management succession plan framework, employment equity policy and official language policy of the Corporation, as well as the design, objectives and competitiveness of FCC's compensation plans.

During this fiscal year, significant accomplishments of the Human Resources Committee included:

- *initiating a review of the management succession planning framework;*
- *overseeing the implementation of a management development plan focussed on key leadership objectives;*
- *completing a compensation review of the salary band levels for the Corporation; and*
- *completing a CEO performance evaluation based on an evaluation framework, which included a scorecard analysis of corporate and individual performance and success at meeting the strategic objectives of the Corporation.*

The Human Resources Committee met four times during the year ended March 31, 1999.

CORPORATE GOVERNANCE COMMITTEE

Chair: Edward Clark
Members: Donald W. Black
Rosemary Davis
Marie-Andrée Mallette
John J. Ryan
Marilyn Marie Scott

The Board of Directors has taken the lead role in developing the Corporation's approach to corporate governance issues and has mandated the Corporate Governance Committee with the responsibility to focus on emerging issues that enhance Board effectiveness. The Corporate Governance Committee is comprised of five non-management members, including the Chair of the Board plus the Chief Executive Officer.

The Corporate Governance Committee's responsibilities include: assessing and making recommendations to the Board regarding governance processes; Board committee structure and responsibilities; the Board's relationship with the CEO; Board member qualification and succession; orientation and education of Board members; and, evaluation of Board performance. The Governance Committee is also responsible for overseeing the Corporation's standards of conduct and ethics as well as Board member responsibilities and conflict of interest matters.

During this fiscal year, significant accomplishments of the Corporate Governance Committee included the establishment of an evaluation process to formally assess the effectiveness of the Board and its Committees with a view to enhancing overall performance. The Committee also developed and recommended a Chair Profile and Director Profile, which set out the desired knowledge, experience and background for Directors. These profiles were provided to the Minister of Agriculture and Agri-Food Canada and to the Director of Appointments for consideration in the selection and renewal process of Directors.

The Corporate Governance Committee met four times during the year ended March 31, 1999.

BOARD AND MANAGEMENT RELATIONS

The Board of Directors has established a practice of working with all members of senior management in order to enhance Board and management relationships. This includes having members of senior management regularly attend and participate in the discussions at Board meetings on a rotational basis throughout the year.

ACTIONS REQUIRING BOARD APPROVAL

There is a clear understanding between management and the Board of Directors through historical board practice, as well as accepted legal practice, that all transactions or matters of a material nature must be presented to the Board of Directors for approval. The Board by-law states that all significant corporate policies require Board approval, including the Corporate Plan as well as the strategic, financial and borrowing plans. The Board of Directors believes it is well informed as to the business and affairs of FCC and that appropriate matters have been brought to the Board of Directors for approval.

BOARD REMUNERATION

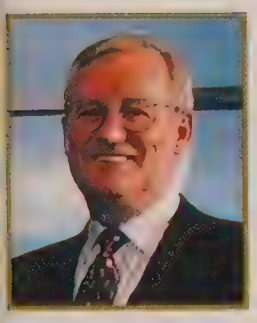
For the performance of their duties, Directors are paid an annual retainer and per diem amounts, which are set by the Governor in Council pursuant to the *Financial Administration Act*, on the recommendation of the Minister of Agriculture and Agri-Food.

The Chair of the Board receives an annual retainer of $6,500 and per diem of $375 for meetings attended. Committee chairs receive an annual retainer of $4,250 and $300 per day for meetings attended. All other Board members receive an annual retainer of $3,500 and a per diem of $300 respectively. Per diems are paid for time spent performing corporate business in accordance with corporate policies. In the case of more than one meeting being held on one day, only one per diem is paid to each attendee. Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties on behalf of the Corporation.

DIRECTOR	BOARD REMUNERATION	COMMITTEE REMUNERATION	TOTAL REMUNERATION	EXPENSES	BOARD ATTENDANCE RECORD (%)	COMMITTEE ATTENDANCE RECORD (%)
Donald W. Black	$ 13,250	$ 1,875	$ 15,125	$ 10,050	100	100
Edward W. Clark	9,200	1,950	11,150	17,270	100	100
Rosemary Davis	7,400	1,500	8,900	13,670	100	100
Rashpal Dhillon	7,100	900	8,000	7,250	67	67
Warren Ellis	9,500	2,250	11,750	23,360	100	100
Eleanor M. Hart	8,300	1,950	10,250	13,590	100	100
Lois Hole	6,800	600	7,400	4,420	67	50
Marie-Andrée Mallette	9,200	1,500	10,700	16,290	100	100
Peter V. Rampton	7,100	1,200	8,300	9,770	83	88
John J. Ryan	N/A	N/A	N/A	N/A	100	100
Marilyn Marie Scott	7,700	900	8,600	5,460	83	100
Germain Simard	9,200	1,200	10,400	17,390	100	100
Total	**$ 94,750**	**$ 15,825**	**$110,575**	**$ 138,520**		

FARM CREDIT CORPORATION

Board of Directors



Donald W. Black

Chair since January 11,1995, Member, Audit, Corporate Governance and Human Resources Committees

- President and Chief Executive Officer of Greystone Capital Management Inc., a Regina, Saskatchewan-based independent investment counseling firm with $8 billion under management
- Served as director of public companies, such as TGS Properties Ltd. and the Luscar Coal Income Fund as well as private companies, industry associations and charitable organizations
- Strong believer in the business sector's support of the community and now serves on the Boards of the Hospitals of Regina Foundation, the Canadian Scholarship Trust Plan and the Ranch Ehrlo Society



Rosemary Davis

Director since December 19, 1995, Member, Audit and Corporate Governance Committees

- Owner/Operator, Tri-Country Agromart Ltd., a retail and wholesale fertilizer plant, farm supply, feed store and garden centre
- Director, Trenval Development Corporation – Chair of the Agriculture Committee, member of the Organizing Committee of the Quinte Farm Show
- Involved in the Fertilizer Institute of Ontario Fertilizer Use committee, Ontario Federation of Agriculture, Soil and Crop Associations of Northumberland, Hastings, Prince Edward and Northumberland Apple Growers Association, and Rotary International



Edward W. Clark

Director since May 28,1996, Chair, Corporate Governance Committee

- Owner/Operator, Beef and Forage Farm, Miscouche, Prince Edward Island for 40 years
- Served on Minister's Advisory Committee that named the Confederation Bridge connecting PEI to the mainland
- Won the 'Friend of 4-H' award commemorating commitment to the 4-H organization in 1995
- Elected to the Prince Edward Island Legislative Assembly in 1970 and served as Minister of Agriculture and Forestry, and the Speaker of the Legislative Assembly among other portfolios, retired MLA 1996
- Strong commitment to community: Former President of PEI Junior Farmers, former member of Federation of Agriculture, past provincial president of the PEI Shorthorn Breeder's Association, 4-H Leader for 20 years



Rashpal Dhillon

Director since June 6, 1995, Member, Audit and Human Resources Committees

- President and Chief Executive Officer, Richberry Farms Ltd., a cranberry and blueberry operation; General Partner and Chief Executive Officer of Pitt Meadows Farms Ltd., a cranberry operation and Director/Owner of Richview Golf Centre.
- Former Director/Secretary of the Richmond Farmers Institute and the British Columbia Cranberry Marketing Board; former Director/Vice-President of the British Columbia Blueberry Co-operative
- Director of the Canadian National Institute for the Blind; former Director of the Richmond Foundation



Warren Ellis

Director since April 4, 1995, Chair, Audit Committee

- Proprietor, Warren Ellis Produce, O'Leary, Prince Edward Island, a mixed farming operation of potatoes, barley, wheat and feeder cattle
- President of O'Leary Potato Packers Ltd., a potato processing operation that processes and markets throughout North America and the Caribbean
- Past Board member of Western PEI School Board and PEI Landing Authority; Past Chairman of the O'Leary Community Sports Centre and Potato Blossom Festival
- Atlantic Region honoree in Canada's Outstanding Young Farmers Program in 1994



Eleanor M. Hart

Director since May 2, 1995, Chair, Human Resources Committee

- Farm partner/owner, Lokoja Farms
- Past-President, Ontario Home Economics Association, Woodstock, Ontario
- Volunteer Oxford's Family and Children's services, local Director for the County Federation of Agriculture, member Canadian Home Economics Association, the London Home Economics Association, the London Home Economics Association, International Development Committee and the Agricultural Research Institute of Ontario
- Active with the Woodstock Campus Fanshawe College, participating in advisory boards and past member of its evaluation committee for the Farm Business Management Course



Lois Hole

Director since April 4, 1995, Member, Human Resources Committee

- Holes Greenhouse and Gardens Ltd., St. Albert, Alberta, a 40-year-old operation that is one of the biggest retail garden centres and greenhouses in Western Canada and regarded as a premier supplier of quality plants and gardening-related material in Canada
- Published author and renowned gardening expert with seven books (Canadian best sellers) to her credit as well as regular columns in *The Globe and Mail* and *Edmonton Sun*; and recently completed the Canadian portion of the 1999 *Old Farmer's Almanac Gardening Companion*
- Present affiliations: Board member, Canadian Heritage Garden Foundation, Child & Adolescent Services Association, and Quality of Life Commission; Honorary Board Member, Poverty in Action; Director, The Alberta Congress; and Chair, Edmonton Mayor's Luncheon for the Arts
- Chancellor of the University of Alberta Senate and has received numerous awards and honours, including an honorary doctorate from Athabasca University for her contribution to education



Marie-Andrée Mallette

Director since June 16, 1995, Member, Audit and Corporate Governance Committees

- Farmer, large-scale farming of commercial crops and colored beans
- Lawyer specializing in agricultural, municipal, real estate, international trade corporate and commercial law, Saint-Paul-de-Chateauguay, Québec for 13 years
- Regional Director of the Québec Business Women's Association and founded the Beauharnois-Valleyfield chapter of the APAQ
- Works actively with Québec Business Women's Association, the Châteauguay Chamber of Commerce, the Women for Access to Political and Economic Power and the Canadian Bar Association and shares her own experience in exporting to assist and guide producers



Peter Rampton

Director since May 2, 1995, Member, Audit and Human Resources Committees

- Director of Finance, Cowichan Valley Association for Community Living, British Columbia
- Earned a Bachelor of Science in Agriculture Economics from University of Manitoba in 1971 and a Certified General Accountant designation in 1994
- Managed Rampton's Gartmore Farms, a 1,900 acre grain farm for 27 years
- Active past involvement in home community of Dauphin, Manitoba includes Association for Community Living, ARC Industries, Parkland Residential Services, Dauphin's Donor's choice, St. Victor's Pastoral Council, Manitoba Winter Games, midget hockey and Dauphin's Countryfest



John J. Ryan

Director since September 1, 1997, Member, Corporate Governance and Human Resources Committees

- President and Chief Executive Officer, Farm Credit Corporation, Regina, Saskatchewan
- Member of the Conference Board of Canada's 'Operating Executives Council on Quality' and involved, in various capacities, with Boards of Trade and Chambers of Commerce; Serves on the Board of Trustees with the Canadian Athletic Foundation and the Board of Directors for the Hospitals of Regina Foundation; has worked extensively with the Jaycees and the United Way
- Led the CEO challenge for Habitat for Humanity in 1998; past co-chair of the federal division for Regina's 1998 United Way campaign; Vice Chair in the 1999 United Way campaign.



Marilyn Marie Scott

Director since October 24, 1996, Member, Corporate Governance Committee

- Lawyer specializing in agriculture law, wills and estates and is Senior Partner in Scott and Weber Law Firm, Humboldt, Saskatchewan
- Earned a Bachelor Commerce degree from University of Saskatchewan in 1977, followed by a Bachelor of Laws degree in 1978 and admittance to the Saskatchewan Bar in 1979
- Member and past Director of Women Entrepreneurs of Saskatchewan and a member of the Humboldt District Chamber of Commerce, the Canadian Bar Association and the Saskatchewan Trial Lawyers Association
- Active community involvement includes Girl Guide Leader, girls minor softball, as well as various church, educational and hospital liaisons.



Germain Simard

Director since June 6, 1995, Member, Human Resources Committee

- Dairy Farmer, La Baie, Québec
- President of the Union des producteurs agricoles (UPA) for Saguenay-Lac-Saint-Jean; Board member for the Québec insurance company, Les Coopérants; the Commission professionelle de l'Agriculture du Québec; the Chaîne Coopérative du Saguenay; Nutrinor; and the regional agricultural advisory committee

Glossary OF Terms



Agribusiness – Businesses which are upstream or downstream from primary agricultural production.

Alliances – Relationships between FCC and other agricultural organizations formed to pool talents and offer expanded services to the primary producer and value-added enterprises.

Asset/Liability Management Committee (ALCO) – A senior management committee responsible for the management of a financial institution's entire balance sheet to achieve desired risk-return objectives.

Allowance for Credit Losses – Management's estimate of probable credit losses in the loans receivable portfolio. The allowance is increased by specific and general provisions for loan impairment and reduced by writedowns on real estate acquisitions and loan writeoffs net of recoveries. Allowances are accounted for as deductions from loans receivable on the balance sheet.

Derivative Financial Instrument – A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Types of derivative contracts include interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts, and futures.

Efficiency Ratio – Administration expenses as a percentage of income before real estate gains and provision for credit losses.

Gap Analysis – A tool to measure the maturing balances of assets and liabilities for interest rate risk-management purposes.

Hedge – A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired Loans – Loans are automatically classified as impaired when payment is 90 days past due, unless the loan is well secured and in the process of collection; or when, in the opinion of management, there is no longer reasonable assurance of the timely collection of principle and interest.

Interest Expense – Expense to the Corporation incurred from the use of interest bearing funding instruments.

Interest Income – Income earned on loans receivable, cash and investments.

Interest Rate Option – A right, but not an obligation, to pay or receive a specific interest rate on a notional amount of principal for a set interval.

Interest and Currency Rate Swaps – Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

International Swap Dealer's Association, Inc. (ISDA) – The principal swap industry trade group whose agreements are the industry standard documentation for derivative instruments.

Leverage – The relationship between total liabilities and the equity of a business.

Market Value of Portfolio Equity (MVPE) – The net present value of assets less liabilities. It is used to measure the sensitivity of a corporation's net economic worth to changes in interest rates.

Net Interest Income (NII) – The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net Interest Margin – Net interest income expressed as a percentage of average total assets.

Notional Principal – A reference amount upon which payments for derivative financial instruments are based.

Provision for Credit Losses – A charge to income that is added to the allowance for credit losses.

Return on Assets (ROA) – Net income expressed as a percentage of average total assets. Used with ROE as a measure of profitability and as a basis for intra-industry performance comparison.

Return on Equity (ROE) – Net income expressed as a percentage of average equity.

RISK

Counterparty Credit Risk – The risk of a loss being incurred if a counterparty defaults on a financial instrument or transaction.

Liquidity Risk – The risk that required funds will not be readily available to meet Corporate obligations in a timely manner.

Foreign Exchange Risk (FX) – The risk of financial loss due to adverse movements in foreign currencies.

Interest Rate Risk (IRR) – Exposure to a decline in net interest income and capital position as a result of a relative or absolute change in interest rates. Varieties of interest rate risk include: prepayment risk, commitment risk, and reinvestment risk.

FARM CREDIT CORPORATION

Locations

BRITISH COLUMBIA:
Abbotsford, Dawson Creek, Duncan, Kelowna

ALBERTA:
Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, Lethbridge, Medicine Hat, Olds, Red Deer, St. Paul, Stettler, Stony Plain, Vegreville, Vermilion, Westlock, Westaskiwin

SASKATCHEWAN:
Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard, Yorkton

MANITOBA:
Arborg, Brandon, Carman, Dauphin, Killarney, Melita, Morden, Morris, Neepawa, Portage La Prairie, Steinbach, Stonewall, Swan River, Virden

ONTARIO:
Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kingston, Lindsay, Listowel, Lambeth, Nepean, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

QUÉBEC:
Alma, Drummondville, Gatineau, Granby, Joliette, Rock Forest, St-Jérôme, Rivière-du-Loup, St-Georges-de-Beauce, St-Hyacinthe, St-Jean-sur-Richelieu, Ste-Foy, Trois-Rivières, Valleyfield, Victoriaville

NEW BRUNSWICK:
Grand Falls, Moncton, Sussex, St. George, Woodstock

NEWFOUNDLAND:
St. John's

NOVA SCOTIA:
Kentville, Truro

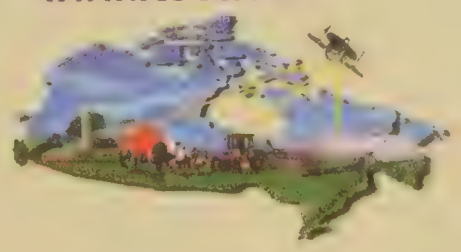
PRINCE EDWARD ISLAND:
Charlottetown, Summerside

AGRI-LAND
1801 HAMILTON STREET
P.O. BOX 4320
REGINA, SASKATCHEWAN
S4P 4L3
TELEPHONE: (306) 780-8411
FAX: (306) 780-7576

GOVERNMENT LIAISON OFFICE
151 O'CONNOR STREET
OTTAWA, ONTARIO
K1A 1K3
TELEPHONE: (613) 993-9897
FAX: (613) 993-9919

CORPORATE OFFICE
1800 HAMILTON STREET
P.O. BOX 4320
REGINA, SASKATCHEWAN
S4P 4L3
TELEPHONE: (306) 780-8100
FAX: (306) 780-5456

www.fcc-sca.ca



CORPORATE Values



Client Service: WE ARE COMMITTED TO BUILDING CUSTOMER LOYALTY BY CONSISTENTLY PROVIDING VALUE WITH EXEMPLARY SERVICE.

Trust and Respect: WE BUILD CLIENT TRUST AND RESPECT BY CONDUCTING OUR BUSINESS IN A FAIR AND ETHICAL MANNER AND BY BEING SENSITIVE TO CLIENT VALUES.

Teamwork: WE ADVOCATE TEAMWORK AND EMPOWERMENT FOR STAFF TO DO THEIR JOBS EFFECTIVELY.

Continuous Learning: WE PROMOTE PROFESSIONAL DEVELOPMENT OF STAFF AND CONTINUOUS LEARNING.

Partnerships: WE BELIEVE IN PARTNERSHIPS THAT FURTHER ENHANCE OUR COMMITMENT TO AGRICULTURE.

Corporate Social Responsibility: WE SUPPORT COMMUNITY ACTIVITIES CONSISTENT WITH OUR VISION AND ARE SENSITIVE TO THE PROTECTION OF OUR ENVIRONMENT.

Diversity: WE BELIEVE THAT A DIVERSE WORKFORCE REFLECTING THE VARIOUS BACKGROUNDS AND CULTURES OF CANADIANS BRINGS STRENGTH TO THE ORGANIZATION.

FCC SCA
Farm Credit Corporation Société du crédit agricole
Canada

FARM CREDIT CORPORATION • 1800 HAMILTON STREET • REGINA, SASKATCHEWAN • S4P 4L3 • (306)-780-8100

Cette publication est également offerte en français.

www.fcc-sca.ca

6128

3 1761 11550555 4